AUGUST 1926 1/-

THE BANKER

Vol. II No. 7

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THE BANK OF FRANCE
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THE FINANCE OF EMPIRE MARKETING
By The Right Hon. William Graham, M.P.

BANKS AND INSURANCE COMPANIES
By P. C. Crump

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	£
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1924	5,451,359
1925	6,354,954

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HOLBORN BARS, LONDON, E.C.1.

P.P. 65

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Incorporated by Royal Charter, 1835.

Paid-Up Capital - - - -	**£4,000,000**
Reserve Fund - - - -	**£3,760,000**
Reserve Liability of Proprietors under the Charter	**£4,000,000**
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Reserve Fund - - - - -	£740,000

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GUARANTEED BY THE AUSTRALIAN COMMONWEALTH GOVERNMENT.

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THE GOVERNMENT OF THE STATE OF TASMANIA.

SAVINGS BANK DEPARTMENT.

Agencies are open at 3,400 Post Offices in the Commonwealth, &c.

As at 31st DECEMBER, 1925.

General Bank Balances	£36,496,397
Savings Bank Balances	43,875,693
Note Issue Department	53,890,226
Rural Credits Department	150,790
Other Items	5,280,512
	£139,693,618

LONDON OFFICE; 36-41 NEW BROAD STREET, E.C.

Also at AUSTRALIA HOUSE, STRAND, W.C.

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ESTABLISHED 1834 INCORPORATED IN NEW SOUTH WALES

Capital Paid-up	£3,500,000
Reserve Fund	£2,830,000
Reserve Capital	£3,500,000

Head Office: 343 GEORGE STREET, SYDNEY

General Manager - - - J. R. DRYHURST

London Office: 18 BIRCHIN LANE, LOMBARD STREET, E.C.3

Manager - - - - - - V. B. JONES

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The Management of any of the offices will be pleased to explain the Bank's services in detail or to discuss any individual banking and trading problems. A copy of the Bank's publication, "How Business with Foreign Countries is Financed," will be sent post free on request.

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ESTABLISHED 1919

HEAD OFFICE:
300 High Holborn, London, W.C.1
PARIS BRANCH: 26, Rue Vienne, Paris
BERLIN REPRESENTATION:
Kurfurstenstrasse, 33, Berlin

Authorised Capital - - -	£1,000,000
Paid-up Capital - - - -	607,000
Reserve Fund & Undivided Profit -	110,000

The Bank finances the export and import operations of the Russian Co-operative and other Societies.
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Reserve—Lit. 30,000,000

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London Office:
68, LOMBARD STREET, E.C.3.

Capital Subscribed -	£18,791,120
Capital Paid up and Reserves - -	4,337,246
Deposits, &c., at 30th June, 1926 -	59,328,980

380 Branches and Sub-Branches.

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The Bank is prepared to act as Agents for Foreign Banks on usual terms.

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ENGINE BUILDERS FOR OIL, SPIRIT, & GAS FUELS.

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Works:—Imperial Works,
Keighley, Yorks,
ENGLAND.

BANQUE NATIONALE DE ROUMANIE.

Head Office . . BUCAREST.

Telegraphic Address: "BANCANAT."

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Vice-Governor: TH. CĂPITANOVICI.

Managers:
OSCAR KIRIACESCU, C. I. BĂICOIANU, G. G. STROESCU, N. BĂLĂNESCU, D. GHEORGHIU, C. MIMI.

EXTRACT FROM THE BALANCE SHEET AS AT JUNE 19th, 1926.

	Lei.	Lei.
Gold Currency in hand ...	126,413,006	
Bullion	14,569,513	
Gold Currency on Deposit ...	428,139,680	
Silver and various Currency	21,993,866	
Foreign Bills and Gold Treasury Bonds	6,435,636,669	7,004,758,868
Bills receivable and advances against Securities ...		10,548,994,845
Advances to the State ...		10,678,975,705
* * *		
Notes in Circulation ...		20,991,057,061
Sundry Current Accounts ...		7,919,029,639
Capital and Reserves ...		165,227,779

BRANCHES AND AGENCIES.

Brăila, Craiova, Galati, Iasi, Arad, Bacău, Bârlad, Bazargic, Botosani, Buzău, Călărasi, Câmpu-lung, Caracal, Cernăuti, Cetatea-Albă, Chisinău, Cluj, Constanta, Dorohoi, Fălticeni, Focsani, Giurgiu, Husi, Ismail, Lugoj, Oradia-Mare, Piatra-Neamt, Pitesti, Ploesti, Râmnicu-Sărat, Râmicu-Vâlcea, Roman, Satu-Mare, Sibiu, Silistra, Sighetul-Marmatiei, Sighisoara, Siml.-Silvanici, Slatina, Târgoviste, Târgu-Jiu, Târgul-Mures, Tecuci, Temisoara, Tulcea, Turnu-Măgurele, Turnu-Severin, Vaslui.

National Bank of New Zealand, Ltd.

Head Office: 8 MOORGATE, LONDON, E.C.2.

88 Branches and Agencies throughout New Zealand.

Authorised and Subscribed Capital		**£6,000,000**
Paid-up Capital	**£2,000,000**	
Reserve Fund and Undivided Profits	**£2,173,043**	
	£4,173,043	

The National Bank of New Zealand, Limited, receives Deposits of £50 and upwards for 1 or 2 years at 4½% per annum, and conducts every description of banking business connected with New Zealand.

ARTHUR WILLIS, Manager.

THE BRITISH LINEN BANK

Incorporated by Royal Charter, 1746.

CAPITAL £1,250,000 RESERVE FUNDS £1,800,000

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Deputy-Governor: THE RIGHT HON. THE EARL OF HOME.

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Every Description of Home and Foreign Banking Business transacted.

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General Manager - - - ALEX. ROBB. *Secretary* - - - MAGNUS IRVINE.

Capital Subscribed - - **£5,500,000** **Reserve Fund** - - - **£1,800,000**

Capital paid up - - - **£1,750,000** **Deposits (31st Oct., 1925)** - **£34,150,000**

London City Office - - - - - **62 LOMBARD STREET, E.C.3.**

ANDREW W. RUSSELL, *Manager.* JOHN M. ERSKINE, *Assistant Manager.*

Kingsway Branch - - - - **IMPERIAL HOUSE, KINGSWAY, W.C.2.**

JAMES O. DAVIDSON, *Manager.*

Glasgow Chief Office - - - - **113 & 115 BUCHANAN STREET.**

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(The National Association of Bank Employees of England and Wales.)

The Guild is a protective association which aims at the betterment of the status of the Bank Clerk and co-operation with the Directorates.

It desires Banking to be raised to the dignity of a profession, and is doing a great work to increase the educational standard of the employee.

For full particulars and explanatory literature apply to:—

THE GENERAL SECRETARY,
BANK OFFICERS' GUILD,
BLACKFRIARS HOUSE,
NEW BRIDGE STREET, E.C.4.

SOCIÉTÉ GÉNÉRALE

POUR FAVORISER LE DEVELOPPEMENT DU COMMERCE ET DE L'INDUSTRIE EN FRANCE.

Subscribed Capital - - - - Frs. 500,000,000
Paid-up Capital - - - - Frs. 250,000,000
Reserve Fund - - - - Frs. 60,455,677
Deposits as at 31st Dec., 1925 - Frs. 7,321,073,000

Head Office: 29 BOULEVARD HAUSSMANN, PARIS.
London Office: 105 OLD BROAD STREET, E.C.2.
West-End Branch: 65 REGENT STREET, W.1.

OVER 1,200 BRANCHES IN FRANCE AND NORTH AFRICA.

Subsidiary Banks or Correspondents in all parts of the World.

THE IMPERIAL BANK OF PERSIA

(Incorporated by Royal Charter, 1889)

Capital fully called up - £650,000 Reserve Account - - £470,000
(with power to increase to £4,000,000)
Reserve Liability of Proprietors under the Charter - - - - £1,000,000

LONDON BANKERS:
MESSRS. GLYN, MILLS & CO. THE WESTMINSTER BANK LIMITED, LOMBARD STREET. LLOYDS BANK LIMITED.

HEAD OFFICE:
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CHIEF OFFICE:
TEHERAN, PERSIA.

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THE BANK is prepared to transact Banking Business of every description in and connected with Persia and Iraq (Mesopotamia), also with Bombay, Calcutta and Karachi.

Clean and Documentary Credits arranged. Documentary Bills negotiated, Clean and Documentary Bills collected. Letters of Credit, Drafts and Telegraphic Transfers issued.

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THE BANKER

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The Editor will be glad to consider articles on Banking subjects and to receive items of news of interest to Bankers.

YOKOHAMA SPECIE BANK, LIMITED.

ESTABLISHED 1880. (*Registered in Japan.*)

Capital Subscribed and Fully Paid - - Yen 100,000,000
Reserve Fund - - - - - - - - - Yen 86,500,000

Head Office: YOKOHAMA.

BRANCHES and AGENCIES at Alexandria, Batavia, Bombay, Buenos Ayres, Canton, Calcutta, Changchun, Dairen (Dalny), Fengtien (Mukden), Hamburg, Hankow, Harbin, Hong Kong, Honolulu, Kai Yuan, Karachi, Kobe, London, Los Angeles, Lyons, Manila, Nagasaki, Nagoya, Newchwang, New York, Osaka, Pekin, Rangoon, Rio de Janeiro, Saigon, Samarang, San Francisco, Seattle, Shanghai, Shimonoseki, Singapore, Sourabaya, Sydney, Tientsin, Tokyo, Tsinanfu, Tsingtau, Vladivostok (temporarily closed).

The Bank buys and receives for collection Bills of Exchange, issues Drafts and Telegraphic Transfers and Letters of Credit on above places and elsewhere, and transacts General Banking Business. Deposits received for fixed periods at rates to be obtained on application.

London Office:—7 Bishopsgate, London, E.C.2.
K. YANO, Manager.

THE LONDON ASSURANCE

A.D. 1720.

FIRE **LIFE**

MARINE **ACCIDENT**

LIFE BONUS 1926:
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1 KING WILLIAM STREET, E.C.4.

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ASSETS EXCEED
£11,000,000

THIRD CENTURY OF ACTIVE BUSINESS.

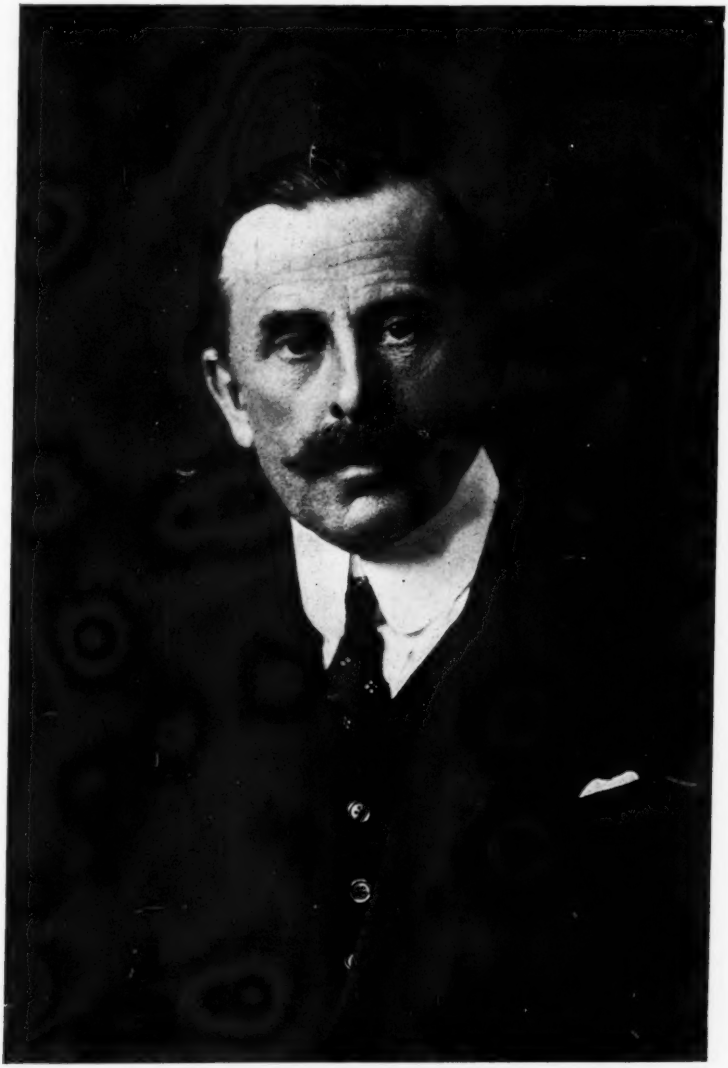
BRANCHES AND AGENCIES THROUGHOUT THE WORLD.

APPLICATIONS FOR AGENCIES INVITED.

THE BANKER

EDITED BY BRENDAN BRACKEN

VOL. II AUGUST 1926 No. 7



J. W. BEAUMONT PEASE
Chairman of Lloyds Bank

THE
BANKER

AUGUST, 1926.

A Main Duty of Bankers

EVERYONE admits bankers are public spirited people carrying out important functions. It may be doubted, however, whether they themselves fully realize their duty to the public in one serious respect. They are by far the greatest builders we have. One may safely say that for every church erected to-day a hundred banks are built, and for every cinema ten. There is one small country town in England where the five great banks have each two branches, and all in the same market-square. Hardly a village in England is too small, and one is tempted to add too beautiful, not to have its new branch bank. These buildings are not meant to blush unseen. They occupy prominent sites competing in the new suburbs generally with the public-houses for corner ones. The making of our new towns and the marring of our old are, therefore, to a certain, and not negligible, extent in the hands of the bankers. The buildings they erect for their own purposes become, as far as their exteriors are concerned, public monuments. They become an integral part of the town directly they are built, and belong to it and the public as well as to their nominal owners. It is, therefore, of the utmost importance that this vast mass of new building all over the country should be well done in every sense of the term. One can safely say it is generally well built. One cannot imagine a bank constructed of flimsy materials. But being well built only means that it will last the longer. Therefore it is all the more important that in addition to being strongly constructed these buildings should be well designed, should be architectural additions, and not architectural detriments to the towns in which they are placed, should be dignified and not pretentious, if not exactly loved objects, certainly not despised and even hated ones. The sad fact, however, remains that the more one looks at the branch establishments of the great banks throughout the country the less satisfied one becomes. Indeed, one begins to get not a little frightened. If the banks go on building at the same pace as they have been doing recently, and do no better, one will begin to hope that every town and village will have its new by-pass road. It is very painful, for instance, to go through a beautiful Cotswold town and find the only blemish is the new bank.

One may well ask why it is that the

THE FRONTISPIECE.

Our frontispiece is a portrait of Mr. J. W. Beaumont Pease, Chairman of Lloyds Bank.

experienced and intelligent persons, who so ably invest our spare cash, do not see that their buildings are better. They hardly appear to realize that they have any responsibility to the public in the matter. It is mainly, one imagines, want of thought. The branches, as it is, pay well enough however they are built. They would probably pay no better if they were beautiful then if they were vulgar. They might, of course, be a better investment in the former case if they were ever to be realized, but that is a contingency hardly to be contemplated. Nevertheless, one must suppose that each individual director would take considerable care in choosing the architect for his own house. In that case he would consider other qualities than whether the architect to be employed had an account at the bank, or whether he had already put up several hundred similar houses with the same stock detail. He would be careful to choose some man with a real love for his craft, and the ability to use solid forms in an expressive way. In short, he would seek for an artist just as much as he would if he were intending to have his wife's portrait painted. Yet the united power of all the directors together seems unable, if one judges from results, except on very rare occasions, to employ an architect who is an artist for their far more important buildings. Finding out who are the real artists, and giving them work or buying their pictures is rather a pleasant hobby which probably quite a number of bank directors practise in their private lives. Why not extend the pleasure of this hobby to the selection of the architects for their bank buildings? If looked at in this light they might be able to persuade their best directors to sit on their building committees. The commission to design a branch bank would be a godsend to many a young architect, and the granting of the commission a fine and pleasant piece of patronage. Instead of using their intelligence and taste in this way we find the biggest banks handing out their work wholesale, fifty to one hundred branches at a time to very mediocre architects, who, even if they were geniuses, could not conscientiously carry it out. Good architecture is an affair of creative ability, high courage, fine feeling, and good taste. These are qualities which cannot either be commandeered or produced wholesale. It is no better when the bank employs its own private architect who does nothing else. If he really does the work himself he soon becomes stale, however good he may be, and the best men never take these tied positions. If he hands it out to his assistants it falls into the hands of less mature men, or ones with little initiative, or they would not remain assistants. In any case, it is safe to say that the man who does nothing but banks cannot be a good bank architect. What knows he of England who only England knows? Here in the case of bank buildings is the finest artistic patronage in the country running to seed, or being wasted because the majority of bank directors are too engrossed in other matters to exercise it with the care and sense of responsibility which is due from them to the public at large.

The Case of the Franc

IT is to be hoped that the French ministerial changes will not mean that the recommendations embodied in the Experts' Report will simply be shelved. All experience goes to show that once a currency becomes thoroughly disturbed, the rate of decline in its value becomes accelerated. As things are at the moment of writing there is probably not much external speculation in the franc, owing to the difficulty which grows with the accelerated fall in the external value of the currency, of finding buyers for forward francs. The pressure on the market must, therefore, be largely a measure of the decline in confidence in France itself. The Experts' Report leaves no doubt whatever as to what is the most urgent problem which France has to face, or as to what are likely to be the consequences of adopting the appropriate remedies. At the head of all the reform measures proposed, the committee put the stabilization of the franc. The process of stabilization is conceived of as falling into three periods: that of "pre-stabilization," when the efforts of the Bank of France should be directed towards establishing a standard, but fluctuations round this standard are allowed to take place: a period of *de facto* stabilization, during which the bank is to try and sell gold and foreign exchange at fixed prices, and, lastly, the period of legal stabilization, when the question of the monetary standard and the relations between the Government and the Bank of France will have to be valued in a definite manner.

The two most urgent problems are thus *how* to stabilize and *what* the provisional stabilization rate is to be. The report believes that it is impossible to stabilize without the use of foreign credits. Psychologically this appears to be the case. The gold at the command of the Bank of France is without doubt sufficient to peg the franc at its present very low gold value, or at a value near to it; but the disappearance of ten or twenty million pounds which might be necessary, would, in the present state of public opinion, add to the dismay. On the other hand, the mere fact that the credit of France is still great enough to command loans in London and New York would add to confidence, and prevent panic sales. Thus public opinion forbids what is uneconomical (for France will have to pay a fairly high rate for its loans), whilst what is economical would not react favourably, but rather the reverse, upon public opinion.

The choice of the stabilization rate is left for the future. "It should neither be chosen now, nor announced publicly." In fixing upon the rate the report particularly dwells upon the necessity of "retaining or attracting foreign capital and encouraging the rapid return of expatriated French funds. From this point of view, as from many others, the choice of a rate higher than the actual rate would seem desirable." But though it is no doubt undesirable to fix upon the stabilization rate now, it would seem very undesirable never to publish it at all. For, in conjunction with the desire to see that rate fixed high, it will encourage bull speculation. Thus, if the rate is driven up too far it would be necessary to drive it down again. In this way, so far from public opinion being calmed, it would alternately be excited and then depressed.

The report has the courage to face the fact that stabilization involves an economic crisis. But, as is quite rightly pointed out, "it is not a question of choosing between a continuance of the actual economic situation and a state of stabilization, but between a necessary crisis and a regime of monetary disorder with all disasters which an accelerated fall of

the franc would produce: limitless speculation, the moral disintegration of the country, impoverishment, social disorders, a period which will terminate, after all, by a stabilization crisis. The longer the crisis is put off the graver it will be. But whatever be the choice made, the crisis is inevitable."

The report, therefore, suggests certain remedies with a view to mitigating the severity of the shock. The measures proposed do not, however, offer very much assistance in the long run: reduction in the cost of production, centralization of purchases and sales abroad in order to facilitate the acquisition of foreign credits, better organization of the labour supply and the like, may even in part accentuate the unemployment problem for the time being. From this point of view it is fortunate that France is still largely an agricultural country, and that the intensified industrialization of recent years has been accomplished with the aid of foreign immigrant labour: for some of this labour power can be repatriated. Whether Poland and Italy, themselves struggling with currency stabilization, will welcome this development may well be doubted, but it will at least make the situation easier for France.

Company Law Amendment

It is certain that at no previous period has the habit of investing in Stock Exchange securities been so widespread as it is now. From this point of view the importance of the companies Acts has greatly increased, and it is, therefore, unfortunate that the recent report of the Company Law Amendment Committee should have been drawn up in a way which is likely to repel the ordinary investor from reading it and considering the recommendations which it makes. These are by no means unimportant. Discussion in the daily press has largely turned upon the recommendation that "Share Hawking" should be prohibited by legislation.

But this evil, though a definite one, does not constitute, when all is said, a very widespread one. From the standpoint of the investing public as a whole, there are other recommendations which are really more important. Of these three stand out. There is, firstly, the suggestion that in future directors of a company shall not be able to "contract out" of their liabilities for negligence or breach of duty or breach of trust. The wind is to be tempered to the shorn lamb to the extent, however, that courts of law should take into consideration when determining the question of whether a particular director should be excused all the circumstances relating to his appointment.

Secondly, the present unsatisfactorily position of the "Offer for Sale" is overcome by the suggestion that offers for sale should be assimilated to prospectuses, so far as the legal obligations resting upon the issuer thereof are concerned. This suggestion is accompanied by the not unimportant recommendation, aimed against the practice of either not giving information about profits at all, or giving such information in an unsatisfactory manner, that statements of net profits should be given in cases where a business is to be purchased.

Lastly, the rules as to minimum subscription are to undergo drastic alteration, if the committee's recommendations are accepted. The minimum subscription will in that event be governed by the purposes for which the issue is made. The prospectus is to state the minimum amount which is required in order to provide adequate working capital, organizing expenses, and the purchase price of any property to be acquired, and directors are to be prohibited from proceeding to allotment unless the aggregate amount so stated is subscribed.

The Bank of France

By Stéphane Lausanne

(Translated)

"THE Old Lady of the Notes" is the affectionate title by which the Bank of France is known to the Paris Money Market.

Yet few know the story of her birth or the name of her godfather. Her own fault, perhaps, for you will look in vain for even the smallest plate bearing name or date, either on the calm and imposing frontage which she presents to the Rue Croix-des-Petits-Champs, or in the peaceful sunlit courtyard in the Rue de la Veillière, or on the thick and towering walls of the Rue Radziwill. If you wish to read the first pages of her story, you must make your way to the library, which is at the top of the main building. So upstairs you go, and at the farther end of a long corridor you will find the keeper of the archives. "This," he says, as he unrolls a parchment, all yellowed with age, "this is the Subscription List of our

first shareholders." And, wonder of wonders, the first four words that meet your eyes are

"Bonaparte, for thirty shares."

Yes, Bonaparte himself. He put his signature with its flourish to this very parchment one hundred and twenty-six years ago one evening in February, 1800, which was called, according to the Calendar of the Revolution, the twenty-third day of the month of Rains in the year VIII. And after his signature there comes a glittering procession of some of the most famous names in the era of the First Consul and Emperor. Bourrienne, who, starting his career as Napoleon's secretary, was to finish it as a prefect of police under Louis XVIII. Clarke, a divisional general, later raised to the dukedom of Feltre; Joachim Murat, a king to be; Hortense de Beauharnais, a future queen; Duroc, aide-de-camp, now sleeping his last sleep by the side of his chief at the Invalides; and, lastly, Joseph Bonaparte, who thought he might sign simply "Bonaparte, one share," but saw the First Consul with an angry hand and trembling pen prefix his Christian name of "Joseph." There was room for only one "Bonaparte" in that family!

In this wise the Bank of France was born on a February evening in the dawn of last century. On the following day you will find, on reading farther in the archives, that the first general meeting of shareholders was held, when it was solemnly announced that the purpose for which the infant had been conceived was "to remedy, by a combination of interests, public and private, (1) the displacement and dispersion of those resources which are the life-blood of commerce and the nation, and (2) the debasement of the public credit and the stagnation in the monetary circulation, which have resulted from the Revolution and from long and costly wars." Not too concise, perhaps, but very comprehensive. The same cradle held, at the infant's disposal, a capital of 30 millions of francs, divided into 30,000 shares of 1,000 francs each: a small capital, but it has kept pace with the growth of the child.

Napoleon's care for his godchild showed a depth and a tenderness which are almost paternal. Some months later he writes: "I am founding great hopes on the Bank, which shall have my support, no matter what the

circumstances may be. . . ." And, later on August 24, 1805: "On any occasion and in any exigency the Bank has recourse to the Public Treasury. This is as it should be: the Public Treasury must give the Bank its assistance, and, if need be, I shall stop even my soldiers' pay to support the Bank."

When he became Emperor he went so far as to declare to Mollien on May 29, 1810: "The stability of the Bank is the stability of my Empire." These were no mere words, for he followed them by significant action. On April 24, 1803, the Bank was endowed with the monopoly of the issue of notes at sight and to bearer, and was forbidden to undertake any trading in any commodities, save gold or silver bullion. On April 22, 1806, the capital, exclusive of the reserve, was raised to 90 millions of francs. On January 16, 1808, the Bank's powers were definitely established by statute.

It is a remarkable fact that these powers are, almost to a comma, the same to-day. The crises, wars, and revolutions of a century have passed over them, and though they may have suppressed a detail here, or given there some added clearness, yet they have not altered the general design of the structure, which still bears, as does the rest of France, the stamp of Napoleon's genius. It was Napoleon, the Emperor, the embodiment of absolute power, who knew, as no one else knew, how to weld at his will the authority of the State with the independence of the individual. The Bank is neither State Bank, not private bank. It is the product of two forces which, in spite of their different origin, are united in well-balanced harmony. On one side we have the shareholders who are entitled to elect fifteen regents and three censors, who are responsible to the shareholders only, and form the general court; on the other side the State nominates a governor and two assistant-governors, who rank above the general court. The court must meet at least once a week; its members, in committee, control the note issue and loans and discounts, the rates of which they fix; they have also a right to information as to all the Bank's operations and no decision of any importance can be taken without their approval.

To keep the balance true no ruling is valid unless it appears over the signature of the State's representative, the governor; he, with his assistant-governors, presides

over the general court, puts its rulings into execution, signs in its name all deeds and documents, and appoints (and dismisses) the staff. It would be difficult to point to an example of a dyarchy where duties have been divided, powers partitioned, and forces united with greater success.

What is the secret of the powerful influence wielded by our "Old Lady of the Notes"? In some measure it is due to the harmonious functioning of this ingenious inner mechanism; partly, too, to a tradition which has clothed her with authority and respect; but in the main she owes her ascendancy to the control which from the date of her birth she has been able, from the very nature of her operations, to exercise upon the Money Market of Paris.

THE BANK'S PRINCIPAL FUNCTION

The principal function of the bank, on which her reputation and fortune are founded, is the discounting of Bills of Exchange. This operation is familiar enough to the banker, but may be described for the benefit of the uninitiated.

Let us suppose that M. Durand, the hatter, buys from M. Dubois, the well-known manufacturer, twenty-five lengths of cotton at a price of 5,000 francs. When settling he will say: "Draw on me for 5,000 francs at sixty days—I accept."

The deal is completed and, with the bill in his pocket duly accepted by M. Durand, M. Dubois goes off to the Banque Dupuy, where he keeps his account. There, after deduction of the discount, his account is forthwith credited with the proceeds of the bill. The manager of the Banque Dupuy then backs the bill, and transmits it to the Bank of France, who submit it for examination to its discount committee, composed of twelve members nominated by the censors, and selected from shareholders, in business in Paris. The committee are not long in deciding on the merits of the bill drawn by M. Dubois. Bills of his have been through their hands before, and they know that the Banque Dupuy only deal in fine trade bills. It is accepted. The bill is filed by the trade bills department, and the Banque Dupuy is credited with 5,000 francs, again less discount.

Sixty days later the bill becomes due. The Bank of France extracts it from its file on the given date and

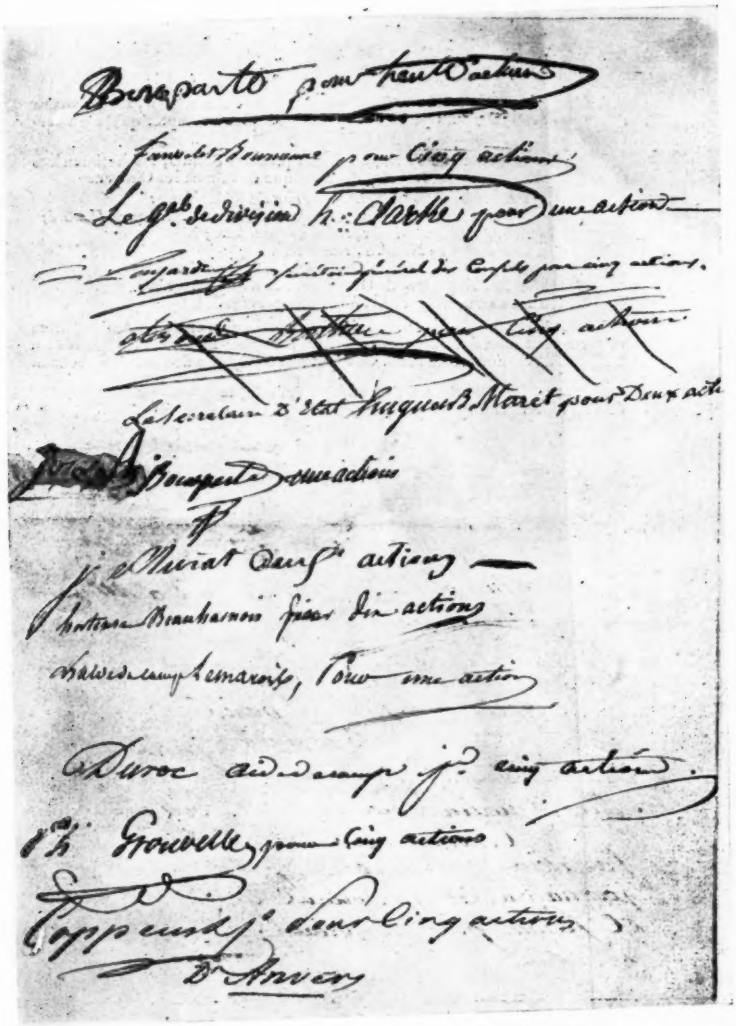
hands it to a messenger, who will present it to M. Durand for encashment. The latter hands over a cheque for 5,000 francs, and the transaction is completed. Completed, mark you, without a coin passing from hand to hand, thanks to our credit system and the facilities provided by our banks.

Multiply this operation almost to infinity and you will have some conception of the flood of commercial transactions which pours daily upon the bank and its branches from all corners of France and her colonies. Perhaps some figures will give a better idea of the volume of transactions effected with the help of the bank. Until 1857 the maximum rate of discount was the same as the legal commercial rate, viz. 6 per cent. A law passed on June 9, 1857, permitted the bank to exceed this rate, on the condition that beyond a certain figure the State had a charge thereon and should receive a share of the resultant profits. This share has been increased from time to time in 1897, 1911, and 1918, and the extent of the State's participation will be realized when one learns that in 1925, after paying more than 210 millions in State taxes and charges, the bank handed over to the State 7,216,050 francs under the heading of tax on the dividend, and 9,125,000 francs as the State's share of the profits. The shareholders themselves received exactly 54,750,000 francs. So it is evident that the State benefits to a larger extent from the prosperity of the bank than do the shareholders.

THE NOTE ISSUE

While the discounting of Bills of Exchange is the field of the bank's principal activities, the issue of Notes is her monopoly. It is common knowledge that these Notes are legal tender everywhere on French territory, and that they can only be issued within certain statutory limits. Everyone knows, too, what happens when the law authorizes, or, to speak with more exactitude, *invites* the bank to issue a number of Notes, which have no backing either of gold in the vaults or Bills of Exchange.

Let us first examine the processes employed in the making of these famous Notes. All the world is talking of them, and on them depend the fluctuations of our



SIGNATURES OF ORIGINAL SUBSCRIBERS

exchange rates, the cohesion of our cabinets, and the very life of our governments.

Beneath the Golden Gallery, a beautiful sample of Mansard's skill, where for more than a hundred years the shareholders' meetings have been held, you will find a workshop where Notes are made. But this in only a model workshop, designed for the instruction or entertainment of foreign visitors. The real factory is down in the centre of France, at Clermont-Ferrand, at the foot of the celebrated Puys range of mountains. On the road which leads from Clermont-Ferrand to Royat you will find a pink and white building which looks like a diamond-cutting factory, a hotel, a college, or a sanatorium—anything, in fact, but a Note factory. It is surrounded by bungalows, garden, plots, and bicycle shed. Your permit will here be twice examined before you are allowed to pass through the doorway leading to an immense hall at the farther end of which is a monumental staircase. At the head of this giant stairway is a gallery from which open out six alleys, each 90 yards long, and each containing twelve or thirteen machines of different types.

When the water-marked paper is delivered from the factory in Vicq-le-Comte it is first passed through the perforating machine, which pierces in it a certain number of holes which ensure that the paper can be affixed to the other machines with an exactitude that is mathematical. Next, the printing presses in colour and in black. Next, the washing machine which launders the Notes, giving them that peculiar finish which is so easily recognized by the practised hand. Lastly, the guillotine which cuts the Notes which reach it in sheets containing six or four, according to whether the Notes are for 100 or 1,000 francs.

Of course, the printing presses are the most attractive to the visitor, and I climbed up a ladder to see them at work. Each machine brought its blocks to dip them into four baths of ink of different colours, yellow, red, blue, so pale as to be almost silver, and indigo. The sheet of paper, on which were traced six Notes of 100 francs, passed from bath to bath and showed first yellow, then yellow and red, then yellow, red, and white, and, lastly, all the colours of our Notes as we know them. All this was done without haste. The great machines, quiet and leisurely, went their round with the graceful

rhythm of a children's class in Swedish drill. Without self-consciousness they accomplished their movement quietly, modestly, peacefully.

"These Notes are not yet finished," observed the printer-in-chief. "They are still short of their serial number and the signatures of the chief cashier and the general secretary. For that we use black ink and another machine."

This was a machine of smaller dimensions, fitted with an automatic numbering device, and on each Note it impressed two signatures, always alike, and four numbers, always different. When the Note passed out it was the finished article in the sense that it had all its colours and identification marks, and now only needed to be laundered and cut.

"You will notice," said my guide, "that everything here is done in units of a thousand sheets. A thousand is our sacred number. A thousand sheets of water-marked paper are contained in the lead-sealed packets which are sent down to us from the factory at Vicq-le-Comte, thirty kilometres away. A thousand sheets, each containing six Notes of 100 francs, or four of 1,000 francs, are passed to the presses at one time, and are numbered in an inclusive series. And sheafs of a thousand sheets are sent together to the guillotine, which cuts them into six or four as the case may be."

Of course, from point to point in the process of manufacture all these Notes are followed by an invisible eye. Not exactly by an eye, perhaps, but rather by a system of counting. The Bank of France excels in counting systems. The thousand sheets are counted when they are unpacked, recounted when they come out of the perforator, and recounted when the colour-printing is completed. They are recounted and verified one by one, when they are numbered and cut. It is a sight in itself to watch the hundreds of girls who pass them through their supple fingers. They are installed in long galleries, whose windowed bays look out on to the magnificent panorama of Auvergne's hills and plains. But not an eye wanders to the tempting scenery, and they perform their task with astonishing dexterity. They deploy their thousand Notes as they would flick open a fan, and the sheets flutter through their fingers like the leaves of an album.

THE SALLE DES FÊTES IN THE PARIS OFFICE OF THE BANK OF FRANCE

When the sheaves of a thousand Notes have been finally recounted, they are packed up again and sealed with lead. To each packet is attached a green slip showing the names of those who have handled them at one point or another in the process of manufacture, so that even twenty years later all those who have had a hand in the making of any given Note can be traced. Then the packet is delivered to the Note Department. The process is complete. The Note is born, and will soon be in circulation.

"And does the Bank print every day?"

"Every day," they tell me, "we manufacture here at Clermont anything from 1,200,000 to 1,500,000 Bank Notes. And in the model workshop in Paris they turn out another 100,000 or so. That total is needed to replace Notes withdrawn from circulation because they have been soiled, torn, stained, or damaged. Here we have the figures shown in the Bank statement for December 24, 1924. On that date there were precisely 565,837,512 Notes in circulation throughout the world, of which 163 million were Notes of 100 francs, representing alone a total of more than 16 milliards of francs."

Needless to say, the process of manufacture of all these Notes is as near to perfection as may be. No one else can print on paper of the same texture. The wonderful play of colours is inimitable. Such a pitch of perfection has been reached that forgery is, so to speak, unknown. No one has ever attempted to forge our 100-franc Note, and there are only four known cases of attempts to forge Notes of the 1,000-franc denomination. In any case, these had no luck, for they were all immediately detected.

In the past the game was easier, and forgers brought off some successful *coups* in the nineteenth century before our modern methods were introduced. The Bank can show you some examples of the forgers' skill and their exploits are not forgotten.

There is the story, for instance, of the twelve false Notes of 1,000 francs which arrived at the Bank all together in 1832. The forgery was immediately detected and, as a result of the inquiry which was set on foot, it was discovered that they had been made out of France by an archduke, who was attached to the person of a Sovereign who had been exiled from his country. They had been brought to Paris by a Marquis and Field-

Marshal, and they were passed off by a Prince, who was a member of what had once been a reigning family in the east of Europe. Three Courts, three Aristocracies, and two Services were involved in the matter. The affair was hushed up, but the persons in question were invited to pursue their financial activities in other spheres.

There is the tale, too, of the false Notes of 100 francs which were circulated in 1853, and were such faithful reproductions that only the Bank's own staff could detect their one fault—a little black dot near the head of Mercury in the panel which frames article 139 of the Penal Code. It was the print of a projecting wedge which had been overlooked in the block for the border. Eight years were needed before the culprit was run to earth. He bore the fatally appropriate name of Giraud de Gatebourse, had a property in Saintonge, kept a pack of hounds, entertained "the county," and was an ornament of the Magisterial Bench. His predilection was engraving, and his skill was so great that he had been allowed to carry out certain researches in the Bank's own workshops, with a view to perfecting their processes. He perfected his own with great success. He was brought to judgment and condemned to hard labour for life. He was eventually deported to Cayenne, and there met a terrible end. When endeavouring to escape to Dutch territory his boat capsized and he was sucked down by the mud. Crabs ate him alive.

Lastly, and nearer our time—only shortly before the introduction of the 100-franc Note in colour—there was the extraordinary tale of the subtle Greek. Leonidas Coïdas by name, he had the bright idea that making twenty Notes into twenty-one Notes was not so difficult as one would imagine. He got hold of twenty Notes as nearly new as possible. Then, with a razor he cut off the narrow white margin from the right edge of the first Note and put it aside. From the second Note he shaved off the right margin again, but this time he bit deeper into the blue, and replaced the shaving by the narrower strip which he had cut from the first Note. Similarly with the third Note, which he completed by gumming on his shaving from the second; and so on, until he reached the left border of the last Note. He was then the possessor of twenty-one Notes, each of which lacked a narrow strip of one-twentieth of its width, but which, neatly joined,

could safely, he thought, be put in circulation since they were authentic. Leonidas met a more lenient Court than Sieur Giraud de Gatebourse. No crabs for him, only a year in prison.

All these are tales from the past. The path of the forger is not so easy to-day—and the process of manufacture has become much more complicated. In our times even a castle in Hungary as the factory, and a group of broken-down financiers in Holland as the channel, will not serve to keep you out of the clutches of the law—four days and the game is up.

"But," I asked, "what is conveyed by these serial numbers on each Note? Are they references to some mysterious catalogue?"

"The serial numbers," I was told, "establish the identity of each Note. The Notes are manufactured in series of 25,000. We call each series an alphabet, and our alphabet contains only twenty-five letters, for we have suppressed I on account of its close resemblance to J. And each letter comprises 1,000 Notes numbered from 1 to 1,000. For example, let us take this Note of 100 francs. It carries in the top right-hand corner the number Z12,139, and in the left-hand corner the figures 564. These cabalistic signs only mean that the Note is the 564th in the series Z of the 12,139th alphabet. One multiplication and two additions show you that it is the 303,473,564th Note of 100 francs which has been issued in colours by the Bank of France. Now, if we look in the centre lozenge we find a figure which is again 303,473,564. This enables us to identify every Note."

"And if a Note becomes the victim of an accident?"

"It is replaced forthwith, provided it can be identified. Every day we receive from banks or individuals quantities of Notes which have been soiled, spoiled, or destroyed, and these are immediately replaced by fresh issues. Even burnt Notes are replaced, provided the numbers can be distinguished. Notes torn in two, lengthwise or longwise, present a more difficult case, for although we have the serial and alphabetical numbers, we have only half of the Note, and who is to say that the other half will not be presented to us in due course? However, we generally get over the difficulty by issuing a new Note and taking an indemnity."

"And lost Notes?"

"There are not so very many of them. The 6 milliards of Notes issued between 1808 and 1862 have now been withdrawn from circulation, and we have got them all except 6 millions, or, say, one in a thousand. In the same way the blue Notes, issued between 1862 and 1888 have been almost all called in, and out of 38 milliards of francs, there are only 17 millions missing."

"And cancelled Notes?"

"They are easily dealt with. We put them on one side until we have a certain number and then we have them destroyed. They are burnt in the presence of the Regents of the Bank, either in the incinerators which we have built at the rear of the Clermont-Ferrand factory, or at the offices in the Rue Radziwill. The gas flames reduce them to a heap of white ashes, and their existence is at an end."

That is the whole story of the birth, life, and death of these Notes, for which so many of us work, toil, and struggle all our lives.

One other fact emerges. When every Thursday millions scrutinize anxiously what we are pleased to call the balance sheet of the Bank of France, the figure which they read on the debit side under the heading "Billets au porteur en circulation" is not rigorously precise. The reason is that it is a combination of two censuses taken on different dates. The figure applicable to Paris is taken on the Wednesday evening, while the totals relative to the 250 branch offices in France are taken at the close of business on the preceding Friday. Naturally, between the Friday evening and the following Wednesday changes must and do take place, and it would perhaps be more correct if we, as do the Bank, called the publication the Bank's Statement, rather than the Bank's Balance Sheet. The balance sheet, rigorously and arithmetically correct, is published only twice a year, on June 25 and December 24.

THE BULLION VAULTS

Now we are going to speak of something more substantial than paper Notes—we mean the gold, which is kept in the cellars of the Bank.

For the mass mind the world "gold" exercises a strange fascination: it symbolizes riches, power, and

happiness, and when we speak to the man in the street of the Bank of France he immediately and only thinks of deep and mysterious vaults, and the golden gleam of heaps of pieces and ingots. Such are the powers of imagination.

There is certainly a suggestion of mystery in the vaults of the Bank, particularly in the way by which you reach them. You go down a corkscrew staircase which is too narrow for persons of more than the average build. Indeed, a corpulent visitor would have considerable difficulty in getting down at all. Two mighty barred doors must then be opened, and each of two turnkeys must be there with his bunch of keys before they regretfully swing round on their hinges. But the vaults themselves have little that is impressive. They are like nothing so much as the good honest wine cellars of some peaceful bourgeois, whose walls have been fitted with solid bins. In these bins, which are lit by electricity, are seen the blue and white canvas bags which contain the gold, the famous gold in ingots. You can tell the nationality of an ingot by the shape of the container, for the French bags are cut in the flat oblong, while the American are square-ended to fit the corners of the bars. A label is attached to each bag showing its contents and their value. And that is all! No golden gleam. No gilded glitter. Not a chink of a coin, or even a silvery tinkle. Simply four vaulted rooms which are rather like forgotten libraries of dull books. And if you pull out one of the bags from its shelf, it would make less noise than a book—but perhaps more dust.

It makes a considerable demand on the imagination to realize that we have here the greater part of France's gold, and that there lies almost within arm's reach more than 3 milliards of the precious metal, and in this respect the eye does little to impress the brain. A jeweller's shop window is much more impressive. Then, too, we must remember that this is only a moiety of the bank's wealth. If she had only these dusty money-bags she would be only modestly endowed either in fortune or influence. Her real wealth is not down in her cellars, but above in her counting-house where the Bills of Exchange lie snugly in her portfolios. They represent these bills, perhaps as much as the ingots which are entombed in her vaults. They represent a turnover of

60 milliards a year, not dead metal but a fructifying flow of credit.

In an inventory of her possessions we must not forget that, although she is the oldest of France's institutions, she has an up-to-date office equipment, and has installed mechanical labour-saving machines and devices of the most modern type. Then there is the network of her branches which, 250 in number, cover every province of France. It would be difficult to put a value on the worth of her premises or on the art collections which she has still preserved in the historic rooms, once occupied by the Comte de Toulouse and the Duc de Penthièvre, and where the Princess de Lamballe often entertained Queen Marie-Antoinette. But her real wealth and her most glorious possession is her tradition of work, faithfully and honourably done.

STRIKING FIGURES

An essay such as this would not be complete without some figures. Statistics have their own severe beauty and, better than words, they can show us at a glance where and how progress has been made.

In 1801, after the first year of her existence, the bank's turnover was 1,236 millions of francs; in 1925 the turnover reached a total of 2,000 milliards of francs. In the same year more than 30 million bills were discounted, representing a total of 58½ milliards of francs.

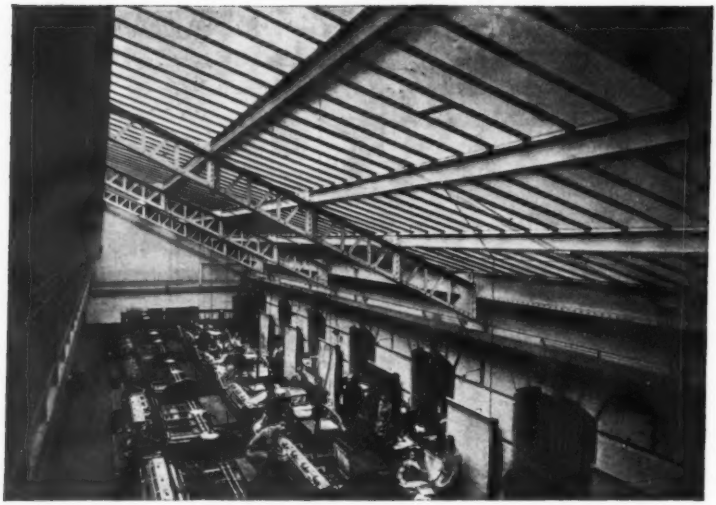
At her head office and branches the bank employs a staff of more than 13,200 persons, and she pays in pensions and widows' allowances more than 3 million francs each year.

We have described above how in 1925 the bank distributed 54,750,000 francs to her shareholders and paid at the same time to the State 226 millions under the headings of general or special taxes, charges, or share of profits. But this contribution which is passed each year from the coffers of the bank into the coffers of the Public Treasury is not the only service which the Bank of France renders to the State. She is also the State's bank : she receives the available balances of the Treasury, and holds them at the Treasury's disposition, or distributes them, as required, on the Treasury's instructions without charge through her head office or branches.

In the same way her branches in the provinces collect the local Treasury receipts, which are then transferred and concentrated in Paris for disposal by the Central Administration. How this work has developed may be seen from the fact that in 1914 the total of these operations amounted to 31,090 millions, and this figure has increased to nearly 85½ milliards in 1925. Lastly, in the gravest hours of national crises the bank has always been ready to help and support the State. In 1914, when there were so many instances of lack of foresight in Government departments, the bank was already prepared: she answered every demand that was made upon her; in the first few weeks of the war she took into her portfolios 4½ milliards of bills which were subject to the moratorium; she received the subscriptions made by the nation to the various war issues; she negotiated substantial credits abroad for the support of our exchange, and she made advances to the Treasury which amounted on the date of the Armistice to 25 milliards of francs.

No blame can be laid on the bank if the gloomy years of war have been followed by years of gloomy peace, more particularly the year 1925, which saw inflation take place to the tune of 17½ milliards. The warnings, one might almost say the appeals, of the governor and the general court to the Government were alike disregarded. Now we can only hope that the errors of the past will be obliterated, and that no fresh errors will darken the future. The worst that could happen is that the State should lay hands on the bank. Less confusion and destruction would follow in the path of State control. Direction would give way to commands, for the less the State digests, the more it seeks to devour. We have already heard from those who expect to be our masters to-morrow, "We need a State Bank," just as our masters to-day wanted State matches, State telephones, State explosives, State oil, and State sugar. Give us a State bank, and it will mean the ruin of our commerce, our money, and our bank, and a little more misery for us all.

When I visited the factory at Vicq-le-Comte, where they make the water-marked paper for the Notes, I caught sight below the hills of a group of charming cottages whose red-tiled roofs were glowing under the



THE NOTE PRINTING WORKS OF THE BANK OF FRANCE

spring sunshine. They were so gaily pleasing to the eye that I asked who lived there, and I was told "Our workers." Each house had its flower plot, its chicken run, its vegetable garden, electricity, central heating. There were tennis courts for the girls, a football pitch for the boys, and a motor-bus to take the children to school.

"Are you happy?" I asked a young woman who was at the gate of her garden.

"Yes, sir," was the answer. "So happy that we wonder if it will last."

It will last as long as the State does not pass that way. It will as surely cease on the day the State becomes the employer. The State does not provide chicken-runs or vegetable gardens for its employees, far less a motor-bus to take the children to school. There are only two things that the State provides—misery for its servants and irritation for its customers.

To the employees at Vicq-le-Comte I would say: "See to it that the Old Lady is kept out of the clutches of the State. Don't let the State lay hand on her Notes!"

The Banking Half-Year

NOTWITHSTANDING certain alarums and excursions in the industrial world and the inconveniences arising therefrom (which the banks and their staffs did not escape), the banking half-year cannot by any stretch of imagination be called an interesting one. The most exciting thing I can think of in connection with it is that one bank, the Midland, has inaugurated a system of "home safes," or money-boxes, as a means of popularizing and feeding the savings bank department which it, in common with other banks, has been running for some years past. So our bankers are setting a new goal before the public—the ideal of "a bank at every street corner" has given place to "a bank in every home." Not, I should hasten to add, that bank directors have lost their enthusiasm for the street-corner type of bank. The construction of these still goes on apace, as witness the "premises accounts" of the "Big Five" which in this half-year alone have grown by upwards of £2,000,000.

Technically the banking half-year has been dominated by two influences: first, the heavy drain upon the bank's gold reserve of last autumn; and secondly, of course, the general strike and the coal stoppage. The loss of gold led to the restoration of the 5 per cent. bank rate in December and almost to a 6 per cent. bank rate in January, and it was responsible for the comparatively high rates of interest and discount prevailing in the early part of the year. The coal strike was responsible—we have this on the authority of Mr. Churchill—for the retention of the bank rate at 5 per cent. in the face of an improving gold situation and of rising exchange rates. As the result of these two influences, with the assistance of a third one, namely, the lifting of the embargo on foreign loans, the level of short-term interest rates has been higher than in the corresponding period of any year since 1921, even than in the first half of last year when we were in the throes of the return to the gold standard. Here are the figures:

January to June.	Bank Rate.	Average Three Months' Bills.	Short Loans.
	£ s. d.	£ s. d.	£ s. d.
1921	6 16 0	6 2 7	5 7 2
1922	4 7 1	2 19 0	2 18 0
1923	3 0 0	2 4 0	1 10 1
1924	4 0 0	3 7 6	2 9 10
1925	4 12 0	4 4 0	3 9 8
1926	5 0 0	4 9 6	4 1 2

It is clear from this record that the half-year has been a profitable one for the banks; whatever the ultimate consequence to them of the industrial disasters they have not come yet. The interest charged on their loans and advances (which represent about half the total assets) will have increased in approximate proportion to the increase in the average bank rate, and they will have made more on their bill portfolios and on their loans to the money market and the Stock Exchange, though as a partial set-off deposit interest will have cost more. In all cases interim dividend payments have been at the same rates as in 1925 (except that the National Provincial, which paid 8 per cent. interim in 1925, but 18 per cent. for the year, now puts the interim payment on the same basis and pays 9 per cent. for the half-year), but this course involves in some cases a somewhat larger distribution because bonus shares allotted at the beginning of the year now rank for dividend.

I turn now to the movements in the assets and liabilities of the banks. On this point information is best sought in the monthly average statements issued by the ten London Clearing Banks, and not in the half-yearly balance sheets which are chiefly interesting as examples of the accounting arts by which a cash ratio of 10 per cent. can *pro hac vice* be made to masquerade as 15 per cent. In the following table I have averaged over the six months, January to June 1925 and 1926, the figures given in the monthly statements, and have thereby obtained a picture of the average position over the two half-years which, if it does not eliminate the results of the touching-up process, at least tones down its cruder effects:

LONDON CLEARING BANKS AVERAGE POSITION JANUARY–JUNE.

	Liabilities.	£ millions.
	1925.	1926.
Capital	68	70
Reserves	54	56
Deposits	1,661	1,644
Acceptances	107	99
Note Issue	3	3
	1,893	1,872
	Assets.	
Cash	195	193
Cheques, etc.	53	51
Money at Call	115	118
Bills	216	204
Investments	298	265
Advances	854	886
Affiliated Banks	26	25
Acceptances	107	99
Premises	29	31
	1,893	1,872

Here again we see the results of the gold drain in the fall in deposits by £17,000,000, or 1 per cent., with an almost equal percentage contraction in the cash holdings. The most noteworthy feature, however, is the large increase in advances, which have expanded by £32,000,000, or about 4 per cent. This process of expanding bank advances has been in progress almost continuously since the summer of 1922, the increase since September of that year and May of this being as much as £165,000,000, or 23 per cent. Simultaneously with it there is to be noted an almost equal and opposite movement in the investment holdings. These, as the table shows, have contracted by £33,000,000 compared with the January–June 1925 half-year, or by almost exactly the amount of the increase in loans, while over the period September 1922–May 1926 the decline has been £141,000,000. The parallelism of movement between advances and investments leaves no room for doubt that it has been the set policy of the banks to sell investments in order that they may to the fullest extent in their power meet all legitimate demands of trade and industry for credit. On the other hand, there must arise serious doubts as to the economic effectiveness of the procedure. To the total volume of bank credit in circulation it clearly makes no difference

whether a bank makes a loan of £1 million to a manufacturer, or whether it buys £1 million of war loan. It is arguable, indeed, that the former procedure enables the bank to make sure that the loan is used for directly productive purposes, whereas there can be no assurance that the proceeds of the sale of war loan will not be used in financing Stock Exchange speculation. On the other hand, it is just as arguable that it is only because directly or indirectly they have lent the purchase money to the purchasers of the investments they have sold that it has been possible for them to go on month after month selling gilt-edged stocks without affecting the price. It is seriously to be questioned, therefore, whether this great increase in bank loans, affected at the cost of selling an equal amount of investments, has had the least influence in stimulating trade. Certainly there does not appear to be any evidence in the state of trade and industry that it has.

To revert after this digression to our subject, there do not, so far, appear in the figures any clear traces of the effects upon banking of the almost catastrophic industrial events of the half-year. Thus, in May the advances with an increase of £3,200,000 over April attained to £893,300,000, the highest total ever recorded in the monthly statements of the clearing banks, and though a £4,000,000 fall in June suggests that the slackening of industry and growing exhaustion of certain commodity stocks due to the strike has at last begun to affect the demand for bank credit, the experience of one month alone is not sufficient to enable one to affirm definitely that that is so. As to the movements in the other balance sheet items the fall in bills discounted, which is also in continuance of an established tendency, reflects in part the gradual reduction of the Treasury Bill issue, and in part probably a decline in the available volume of commercial bills. The shrinkage in the amount of bills under acceptance would also suggest that the total amount of commercial bills of exchange has been lower during the half-year than in the first half of 1925 (reflecting doubtless the general fall in commodity prices). Finally, the last item, "bank premises," which show an increase of about £2,000,000, may be read in conjunction with the first paragraph of this article.

Banking and Financial Notes

The Supersession of M. Robineau

THE protracted polemical warfare between the Government of France and the Bank of France has been terminated by the removal of M. Georges Robineau from the Governorship of the bank. This action conflicted with the principle enunciated by the International Economic Conference that Central Banks should be independent of political control, but if an exception is necessary to prove this wise rule, much could be said in favour of M. Robineau's supersession. His personal integrity and devotion to the interests of the shareholders of the bank cannot be questioned, but his position was seriously compromised by the falsification of the bank's returns effected under his authority. This act may be condoned when the enormous political pressure brought to bear upon M. Robineau is taken into consideration, and it will be remembered that for many years he fought gallantly against the encroachments of the Treasury on the reserves of the bank. Were it not for his firmness the financial plight of France might be worse. M. Robineau's conception of the part which the bank should play in the stabilization of the franc differs fundamentally from the policy of M. Caillaux. While the former Governor's principles are well founded and provide the basis for a conservative reconstruction of the finances of France, they have not found any considerable support amongst politicians or economists.

M. A. H. E. Moreau, Honorary Inspector-General of Finance and Director-General of the Bank of Algiers, has been appointed governor of the bank, and M. Leclerc, the second assistant-governor, becomes chief assistant-governor; Professor Rist has been appointed assistant-governor. M. Picard, the former chief assistant-governor of the Bank of France, has succeeded to the office of Director-General of the Bank of Algiers, and M. Aupetit, Secretary-General, has resigned as a protest against the supersession of M. Robineau.

M. Moreau's rule over the Bank of Algiers has been highly successful, and Professor Rist is a young economist of great promise. In the official announcement of the

appointment of the new officials, it is stated that M. Moreau "has been raised in the school of great State financiers," and "in pursuance of their doctrines will firmly maintain the independence of our great issuing institution, whose credit should remain distinct from that of the State." He will need all the education he received in the school of great financiers to resist the raids of M. Poincaré and whosoever may succeed him in the Ministry of Finance.

The Bank of Mexico

SOME details concerning the new Bank of Mexico were given by Mr. Alberto Mascarenas, the managing director, in a recent address at the Texas Bankers' Convention. Mr. Mascarenas was formerly attached to the Mexican Consulate in Liverpool and London.

"It is true," said Mr Mascarenas, "that to some extent we struck out along new lines in the organization of the Bank of Mexico, although the bank corresponds broadly to the Bank of England, the Bank of France, and the Federal Reserve Banks of the United States.

"The persons who drafted the law for the Bank of Mexico, under the direct supervision of the President and the Finance Minister, carried the margin of safety and the principle of conservatism to limits farther than those which prevail in any other bank in the world. In that respect, perhaps, the bank is being conducted upon novel principles, but principles to which an element of additional soundness is imparted because of their novelty. In fact, the only criticism of the law which governs the new bank that we have heard is that it is, if anything, too conservative, that the inhibitions laid upon the directors are so close and inflexible as to restrict the earning power of the bank. That, in the case of a Government bank is a virtue, rather than a reproachable defect, and I believe you will agree with me.

"As the Constitution provides, the Government owns and controls a voting majority of the shares of the bank, but there its control ceases, excepting in four eminently proper contingencies.

"The Government, through the Finance Minister, has the right to veto a resolution of the board of directors only when, in his opinion, it may adversely affect the

economic equilibrium of the country, and in these specific cases:

"When the resolution relates to investments in foreign securities, or to deposits made abroad; when it relates to new banknote issues, even though they may be within legal limits; when it relates to transactions by the bank in connection with the regulation of the currency, and when it relates to operations connected with the public debt, or the bonds thereof.

"Otherwise the Government's hands are by law specifically restrained from interfering with the operations of the bank. The bank cannot loan money to the Government in amounts in excess of 10 per cent. of the bank's paid-up capital. In its general banking operations the institution is as free and untrammelled from governmental dictation, or influence, as a private bank.

"Besides its exclusive right to issue and circulate bank bills, the bank acts as the fiduciary agent of the Government in all of its transactions. It has taken over the duties of the old Monetary Commission and supervises the minting of gold, silver, and fractional currency. It is part of its functions to maintain the parity between gold and silver currency, and to regulate, through the main office and its branches and its associate banks, the bank interest rate and keep the latter at as moderate a figure as conditions of foreign exchange and the Mexican money market permit. Its policy is not to charge as high a rate as the traffic will bear, but as little as possible.

"The bank's bills may at no time exceed a total of more than twice the amount of its gold reserves, after deducting from the gold on hand the 33 per cent. required by law to guarantee its depositors. Its bills—and here we touch upon its prime service to the business community—which have been emitted slowly and with a cautious regard to the absorptive capacity of commerce, are designed to relieve, and have relieved markedly, the long-existing scarcity of a circulating medium, which has exercised an unwholesomely repressive effect upon general commercial transactions.

"From the day the bank opened its bills have been received without reluctance by the public, and with an eagerness which provided a gratifying surprise to the Government and to the officers of the institution.

"The bank's capital is 100,000,000 pesos, of which nearly 60,000,000 pesos have been paid in, mostly by the Government, which is gradually increasing its holdings as circumstances warrant.

"By its charter the Bank of Mexico is prohibited from engaging in operations which fall within the scope of the new Agricultural and Colonization Bank and the Bank of Industry, which are designed to supplement the functions of the Bank of Mexico and extend accommodations to persons engaged in agriculture on an extensive scale, colonization developments, and large manufacturing activities."

The Position of Armstrong Whitworths

THE sorry plight into which the eminent business of Armstrong Whitworths has fallen has brought grave hardship to its many shareholders, and may seriously prejudice the interests of the bank from which it obtained immense advances. Its present condition is no transient one, subject, as some have represented it, to a normal revival of British trade. An examination of its accounts and the statements issued by the directors show that its organization is so fundamentally wrong as to be utterly incapable of reforming itself by any length of time.

The recent changes in the management may do much to correct the manifold disorders existing in almost every department of the business. If it were necessary it might be shown that Armstrong Whitworth is gravely handicapped by the attitude of senior officials to the commercial engineering departments of the company. These officials cannot escape from the atmosphere of the palmy days of immensely lucrative Government contracts for armaments and allied products. They are waiting for these good old days to return while the business is slowly perishing. They appear unable to understand that the future of Armstrong Whitworth lies in commercial engineering unless, of course, the directors decided to reduce the organization of the firm to the small size necessary to deal with present-day armament orders, which are, in fact, a diminishing quantity. Such reduction could only be effected by cutting down the share capital by three-quarters. This procedure is not likely to be adopted.

The establishment of an efficient commercial engineering organization to bear the heavy overheads of Armstrong Whitworth is a task of extreme magnitude. It will make no progress until most of the ancient machinery and even more antiquated ideas of management are completely swept away. A start should be made by thoroughly examining the problem as to whether commercial engineering and armament work can be done side by side. In present circumstances employees are doing work on armaments which requires the greatest precision in workmanship if it is to be passed by Admiralty inspectors, and at the conclusion of such jobs they are switched on to commercial orders which are essentially entirely different work demanding intense swiftness of output to meet competition. It is obvious that such chopping and changing reacts unfavourably upon workmen. Under the present system the Admiralty work has precedence over commercial products, and it may even happen that men engaged upon commercial production have to wait hours for tools being used on Admiralty contracts. This is a most costly waste.

Until the end of the war most of the managers and senior officials were trained to make armaments and nothing else, so they have found it difficult to adapt themselves to commercial work. Their attitude to such work is quaint. They defend the use of ancient machinery, some of which dates from 1880, upon the grounds that it has for many years been written down to nothing in the company's books. Though its output is as sound as it had been in the '80's, they forget that the same number of workmen the old machine requires could produce ten times more output with modern equipment. This troglodytic policy is reflected in the reports which various departments render to the management, which contain such observations as: "Though sales have fallen off, we are glad to say that we have been able to maintain our prices at their usual high level." The same mentality is responsible for the attitude that customers should be satisfied by an Armstrong product even though other manufacturers can produce the articles at a lower price. We trust that the new management will give serious consideration to the scrapping of huge armament plants scattered all over the country, upon which heavy

rents and rates are being paid in the hope of a revival of the armament trade.

If such thorough-going reforms can be effected the future of Armstrong Whitworth's is bright. It will, of course, be necessary to find new fields of operation to compensate for the loss of armament work. In this connection the directors might consider the possibility of concentrating upon manufacturing for the motor trade. That this work has great potentialities is proved by the fact that during the last few years a drop-stampings department has been established and it is already showing healthy development. This is a slight indication of the possibilities of such methods of enterprise. The misfortunes of Armstrong Whitworth are entirely due to mismanagement, and when this can be remedied the goodwill which attaches to its great name, its highly qualified staff, and the high spirit of loyalty which obtains among all its servants, should restore to it its leading place among the great businesses of England.

The Lessons of the Commonwealth Issue

THE result of the £6,000,000 Commonwealth of Australia Issue was not altogether unexpected by those familiar with the market, but it came as a shock to people disposed to estimate the available resources of the City by the previous spectacular over-subscriptions for attractive trustee securities. New Zealand led the way with a £6,000,000 5 per cent. loan at 98½, and the public gallantly responded to the tune of £120,000,000. Victoria followed with a £3,000,000 loan at the same price, the heavy over-subscriptions proving that the appetite of investors for gilt-edged securities yielding more than 5 per cent. had not by any means been sated. Three Home Corporations, viz., West Hartlepool, Birmingham, and Bradford, then appeared on the market in rapid succession, and experienced no difficulty in raising £7,100,000 on a 5 per cent. basis at par, but the underwriters of the Commonwealth Issue were left with 61 per cent. on their hands, although the price was ½ per cent. lower at 99½.

Let us examine the reasons why the Commonwealth appeal evoked such a poor response from the public generally. When New Zealand led the long string of trustee flotations, markets were extremely favourable.

The weapon of the general strike which had threatened the United Kingdom for years had been used and found wanting. So sudden had been its collapse, that a great wave of confidence surged through the country, and although the industrial situation was still charged with grave possibilities, owing to the continuance of the coal dispute, the fear of social disorder had passed away, the sanity of the great bulk of the population had been completely vindicated, and capital was ready to flow again into gilt-edged securities, especially those returning more than 5 per cent., of which there was a decided shortage in the market. The success of the New Zealand Issue was, therefore, immediate and overwhelming. The terms were made particularly attractive, as New Zealand, despite her high standing in the opinion of the English investor, could not afford to risk a repetition of the 1925 fiasco, when underwriters were called upon to take up as much as 85 per cent. of a £7,000,000 loan. Her appeal at that time coincided with the announcement of England's determination to return at once to the gold standard. Within two days gold began to flow out of the country in large quantities. No one knew how much metal the Bank of England was prepared to lose before applying the mechanism of the bank note, and a feeling of intense nervousness, born of the fear of dearer money, prevailed. In this atmosphere of uncertainty and doubt, investors could not be induced to part with their money except on much better terms than were actually offered, and the Dominion's appeal fell flat. Her 1926 prospectus proved conclusively that no regular borrower, either intentionally or through a concatenation of favourable circumstances, can permanently beat the market, and the terms were so good that applications reached the huge total of £120,000,000. Naturally this figure bore no relation whatever to the actual investment resources of the City. The stags, always on the look-out for bargains, saw their opportunity for a quick and profitable turnover, and the activities of these premium-hunters compelled genuine investors to apply for a great deal more than they intended to hold in the hope of securing a reasonable allotment. As an illustration of the extent to which stags were responsible for the enormous over-subscription, there is the classic example of the enterprising bank clerk, who, realizing the

cheapness of the New Zealand stock, applied for £29,500 worth in £100 parcels, received allotments in full, and cleared £300 on his bargain as soon as dealings opened on the Stock Exchange. The Victorian Issue was immediately snapped up by people who had been deprived of a fair share of the New Zealand loan, and by the time the Commonwealth appeared as a borrower the large sum of £16,000,000 had been taken off the market. Apart altogether from this heavy reduction of investment power, which would in itself tend to force up the rates of money, the Commonwealth prospectus was launched at a moment when the market usually begins to experience a certain amount of stringency due to the window-dressing operations of the banks, and at the price offered the loan made no appeal to the premium-hunter who had helped so materially to swell the subscriptions to the more popular issues.

These are the main reasons for the comparative failure of the Commonwealth loan, but there is another reason which is growing and will continue to grow in importance. The Commonwealth offers no information of any value as to its financial standing, and the wise and prudent investor, guided by a well-informed and vigilant Press, is already discriminating in favour of those Governments who publish a business-like statement of their budgetary and trade affairs. The demand for full and accurate information from would-be borrowers is securing every day a larger measure of support from the leading financial authorities in London, and from commercial bodies interested in the trade and commerce of the Empire. The Associated Chambers of Commerce have already passed resolutions inviting the Dominions to follow the example of New Zealand in supplying full details of revenue and expenditure, public debt, sinking funds, and import and export figures, and the time is not far distant when all Colonial borrowers will be compelled by the force of educated financial opinion to emerge from the shelter of the Colonial Stock Act and to take investors into their confidence. Colonial stocks enjoy the inestimable advantage of ranking as trustee securities in the cheapest market in the world, but the average investor cannot be expected to know what is happening at the other end of the globe, and the majority of borrowing Governments appear

to take advantage of the gilt-edged badge of their securities by withholding information to which the lenders of money are justly and reasonably entitled. Until such borrowers recognize the virtue and value of candour they will suffer, and will deserve to suffer, in credit.

Banking Appointments

THE directors of the National Bank of Scotland have elected the Earl of Ronaldshay to be Governor of the bank in succession to the late Duke of Montrose. Shortly after his retirement from the Governorship of Bengal, Lord Revelstoke was elected to the Deputy-Governorship; Sir Hector Foulis has succeeded him in that office.

Mr. G. F. Abell has been appointed a joint general manager of Lloyds Bank.

Mr. Kenneth M. Carlisle has been elected a director of the Bank of London and South America.

Messrs. Baring Brothers and Company, Limited, announce that Sir Edward James Reid, Bart., has been appointed a managing director and assistant secretary to the company.

Mr. S. P. Cherrington and Mr. S. Parkes have been appointed joint managers of the City office of Lloyds Bank.

Fascist Control of Central Banking?

AS was indicated in the June issue of this Journal, the Government of Italy have decided to withdraw the note issuing rights of the Bank of Naples and the Bank of Sicily. For more than thirty years these banks have shared that right with the Bank of Italy, which is now the only bank of issue in Italy. Following upon this decision a new policy in regard to the banking of public funds has been introduced. By concentrating its liquid funds in the Bank of Italy the Government have secured what is, in effect, control of credit, thereby sapping the independence of the Italian money market. It is premature to comment upon the political implications of these changes, but all who cherish the freedom of central banking from Governmental control will commend the cause to Signor Mussolini, who sees the national value of an independent central bank—perhaps.

The Russian Trade Agreement

By R. G. Boothby, M.P.

THE purely political agitation against Russia grows apace, and for it there is considerable justification. But it would be a tragedy if British business men were to allow the frenzied propaganda now being generated by both sides to obscure from them the true facts of the situation.

It is so easy for politicians to dismiss Russia, in a few well-chosen phrases, as either a paradise or a hell upon earth; and to describe the Bolshevists as flaming idealists or fiendish devils according to taste. The problem is not quite so simple as all that.

The main indictment against the Soviet Government —and it is a formidable one—is that having confiscated millions of pounds-worth of British private property, it has not only failed to meet its obligations, but even to recognize them; and that for seven years it has conducted through the Third International, which it controls, a campaign of propaganda designed to effect the overthrow of the British Empire. These charges cannot be refuted. At the same time changes have taken place in Russia since 1919, and are taking place in Moscow at this moment. In adopting an attitude or framing a policy towards Russia these have also to be taken into consideration. Unfortunately they seldom are.

When Lenin swept away Communism in 1921 he obviously intended to reconstruct Russia by means of capital introduced from outside. He found, however, that the propaganda with which the Communist Party had been drenched had so permeated the minds of its members that they would not accept the logical consequences of the new economic policy. The confusion which resulted was unparalleled, and at its height Lenin died. Then began the great battle between the economic opportunists and the Communist die-hards, which is still being fought out. I believe the opportunists are winning. But it is a desperate business because at every stage the few hundred thousand Communists, in whom lies the ultimate power, have to be propitiated. Buckets of eye-wash will be

required for their benefit for many years to come, and it would pay us to recognize that fact, and if necessary to assist in its application.

On the political side the few basic facts which govern the situation are not difficult to discover.

The Soviet Government is an unadulterated tyranny. There is no attempt at democracy, the Communist Party which is the fountain-head of political power, and from which all officials are selected, containing about $\frac{1}{120}$th of the total population of Russia.

There are only two things capable of overthrowing the Government—a first-class row between the comparatively few men who shape policy, and external war. At the present time neither of these events seems likely to occur, and the Government, controlling as it does an efficient army and the whole of the material resources of Russia, must be regarded as stable.

The antics of the Third International have been regarded of late with increasing disfavour by a section of the Executive, and relations between the two bodies have become less cordial, which is all to the good.

The G.P.U., on the other hand, is permitted to pursue its monstrous course unhindered and unchecked. Men and women are still consigned to jail or exile, and even shot for purely political offences without any attempt at trial. If Zinoviev has gone, Dshershinsky remains.

More serious still from the British point of view is the absence of all internal justice. The law is administered by judges selected by the various Soviet committees, "in accordance with the principles of the Communist Party." It is to be feared that the ordinary private trader would find these principles, on the whole, unreliable!

Lastly, there is beyond doubt a good deal of really efficient administration, one of the most striking examples of which is provided by the Commissariat of Health.

On the economic side there has been a considerable all-round increase in production during the last three years, the rate of which has decreased of late owing to lack of capital. There is a mass of statistics relating to Russian trade, both external and internal, and the "Soviet-Union Year-Book, 1926," published by Allen and Unwin, is full of interesting and valuable information, the accuracy of which has not, as far as I know, been

challenged. Internal trade is conducted mainly by means of the State Trust and the co-operative movement, upon each of which a volume might profitably be written. There will have to be further modifications in the organization of both if production is to regain its pre-war dimensions; but under the new economic policy an industrial and agricultural framework has been constructed, upon which an efficient system could well be built. The financial policy now being pursued by Yurovsky and Scheinmann is impressive. It may be summed up in the single word deflation.

Imports are rigidly controlled. The export of capital is practically prohibited. Credit is restricted. Wages have been, and are being, lowered. This accounts for the curtailment of the ambitious programmes for industrial development which were sketched out two years ago.

Last year the peasants declined to sell their grain to the Government exporting agents owing to a seasonal currency inflation which raised the internal price above the world price. Enormous precautions are being taken to prevent a repetition of this, and although reports from the districts as to harvest prospects are encouraging, imports are being cut to the barest minimum at the present time. If and when the harvest crop has been successfully marketed the Soviet Government will certainly begin to buy again. But never to an extent sufficient to jeopardize the currency position. They would rather close down every factory in Russia than do that. For this reason it is difficult to believe that they are in danger of economic collapse any more than of political collapse. The financial authorities in Moscow admit that they are starved for want of capital, and that in consequence economic progress will be slow for several years to come. But they further assert that if foreign capital is not forthcoming they can get through on their own owing to the enormous resources which they possess and control, and by means of vigorous and ruthless deflation. In ten years' time they think there will no longer be a crying necessity for capital from outside.

It is upon this issue—the terms which should be offered to foreign capitalists—that a fierce argumentative battle is being conducted in Moscow. Various forms of collateral security for a loan were suggested to us,

including preference shares in various State electricity and railway undertakings, but it is obvious that on this point the Soviet authorities have not yet reached a unanimous decision.

In the meantime the official attitude towards Great Britain is that having rejected the draft Treaty of 1924 it is up to the British Government to state its reasons for this action, after which further negotiations will be possible.

When we were in Moscow we admitted that any payment on the part of the Soviet Government of pre-war debts would have to be accompanied by a loan of some sort (not by the Government) on our part if it was to fulfil its obligations, but we asked whether as a preliminary to negotiations the Soviet Government would unconditionally recognize such debts. We received no assurances, but, on the other hand, no refusal.

The denunciation of the trade agreement is advocated to-day in certain quarters. Except as a preliminary to further negotiations for a more satisfactory treaty, it is difficult to see what useful purpose such a step would serve. Anti-British propaganda would almost certainly be increased rather than decreased. And the chance of securing anything for the private creditors of Russia would be indefinitely postponed. Weighty arguments can still be adduced against the initial negotiation of the trade agreement. But such arguments are less impressive when applied to present conditions.

If I have succeeded in rendering the mind of anyone who reads this article rather more confused on the subject of Russia than it was before, then I shall have attained my object. It is a subject that bristles with complexities and difficulties. The contradictions are amazing and unlimited. And the calm, dogmatic, and sweeping assertions that one hears on all sides are peculiarly exasperating to anyone who has caught even a glimpse of the real situation, or talked to those who know it. Indeed, it is an infallible rule that the more people know of the position in Russia to-day the less are they prepared to lay down the law as to the policy we ought to pursue.

One thing stands out. And that is that the less politicans have to do with the matter the better. Russia is not a suitable theme for party politics. The Soviet Government is no argument for Socialism, for in the first

place, it is not Socialism, and in the second place the standard of life in Russia is considerably below anything we should consider tolerable. The problem—and it is a problem—is one which should be handled by business men.

Fortunately there are indications that the Bolshevists are at last beginning to realize this fact. They talk less about a "Government" loan, and more about the City which they will have to satisfy before they can do any good. Both the Americans and the Germans are doing a considerable amount of trade—and getting paid. The former are satisfied with the working of the Harriman and Lena concessions, and it is evident that such concessions are good business if they are on a sufficiently large scale and negotiated direct with the Soviet Government.

A number of prominent American industrialists were actually in Moscow while we were there, and one in particular seemed to be well pleased with such results as he had been able to achieve.

After all, Russia is one of the few countries in the world which requires to be re-equipped from top to bottom, both as regards industry and agriculture. Here a vast field of activity awaits the heavy industries—those very industries which are causing us most anxiety.

There is at the present time a real danger that the whole of this work will go to the United States and to a Germany financed by British capital. This last point was often made to us by Bolshevist officials, who pointed out that Berlin was obtaining credits from London for the purpose of financing the Russian trade, for the benefit of German industrialists.

The psychological moment to attempt negotiations for a settlement of outstanding problems has probably not yet arrived. But it may not be far distant. It is at any rate desirable that any discussions that may be held should take place while the Soviet Government is suffering greatly from a shortage of foreign capital. In this connection an exchange of opinion between the bankers of the City of London and the financial experts in Moscow might do much good. And it is to be hoped that a meeting of this kind will be arranged before long. For it is the business men who control the trade situation, and the future of Anglo-Russian relations lies very largely in their hands.

The Resources of France

By F. François-Marsal

(Formerly Prime Minister and Finance Minister of France)

FRANCE at the present time offers a truly paradoxical spectacle. No wonder that some observers are deceived and that many who are filled with the best of intentions and are some of her truest friends should be led to form incomplete or erroneous judgments about her.

France is a peaceful country. Through the German aggression of 1914 she has recovered the provinces torn from her by the invader in 1871, has restored her national unity, and has nothing to envy any of her neighbours. France is calm, full of resources, and she wants to work, knowing that her labour will be fruitful. And yet, there yawns an abyss in front of her. She can, and I am certain that she will, save herself, through a powerful effort of will; but the slope down which she is gliding seems to become steeper from day to day.

How, then, is one to judge of such a strange situation —so many fine assets, so many efforts made, so many dangers avoided, and now, perhaps, the last phase of the game in jeopardy ?

It is commonly said that this is a financial crisis, but that is true only in part. One is confronted by a complexity of factors which are not easy to consider separately and apart. It is impossible to solve the economic problem if one insists on separating it from the political issue, by which it is permeated and conditioned.

This is easy to demonstrate. If one could view the question solely from the economic angle, the situation would appear excellent, and, as it were, under a cloudless sky. The whole country is hard at work, and, what is more, has the will to work. Although after the war one noticed in France, as well as elsewhere, a certain weariness which undermined the nation's energy, the uneasiness caused by this symptom was soon dispelled. The better elements in the country speedily reacted and gave a good example, so that now one cannot but notice everywhere an undoubted rejuvenation of the nation's activities

In industry as well as in trade, old forms are being scrapped, new outlets are being sought and found. At the same time, while reaching out farther, industries have improved their plants, developed the rail systems, and generally intensified their production.

On the other hand, although France has increased her industrial and commercial output, she remains first and last an agricultural country. Everyone knows that she is the only country in Europe that can normally live out of the resources of its own soil, without any foreign assistance. Agriculture is more flourishing now than it has ever been, and the peasant reaps at last the reward of his long efforts, struggling with all the forces of his being towards individual property, so that the old formulæ of farming, *fermage* and *métayage*, are gradually abandoned. Here, too, the sky is clear.

On the social plane, one may be allowed to look upon the situation with the same degree of optimism. Despite a few electoral successes, more sensational than truly significant, Communism does not seem to be gaining much ground. The French masses, comprising more peasants than workmen, are strongly attached to the soil and do not readily lend ear to those dissolving doctrines. Indeed, no disorders are reported; strikes are very few, and always localized; as for the attempt at a general strike in 1920, it failed miserably from the first. There is no unemployment. Thus, from this side also, the situation is healthy.

All foreigners travelling in France bring back the same impression of peace and prosperity, of a calm and well-ordered life. Those who can see farther than the outward display of Parisian festivities, who look beyond the luxury of women's fashions, of life in the restaurants and theatres, those who visit the French provinces, witness not only order and comfort, but also the will to work, the constant effort, the desire to save money which animates the people.

These qualities, of course, are not new; they have always been characteristic of the French nation. A danger fully as grave as the immediate danger threatening the public finances would be to see the disappearance of these virtues, which have made France as rich as she is.

On this triple foundation—industrial, agricultural, social—it would seem that one ought to be able to build

something solid. France could erect on this the edifice of her financial reconstruction. After 1918 she was entitled to hope that this task of reconstruction would be speedy and final. It is far too easy to forget the initial cause of her embarrassments, and one is but too inclined to cast the responsibility on those on whom first devolved the task of healing the wounds of this great country cruelly stricken by war.

Not only was it necessary to recondition the devastated provinces, to set up again a magnificent industrial centre, to rebuild villages, set mines in working order and relay railway tracks; beside material ends, one had to think of the people. This debt had been charged by the peace treaties against the invaders who were responsible for the losses in life and property. While they defaulted, and as reconstruction was urgent, the French State, not being able to ask from taxation the amounts required for such extraordinary expenditure, had perforce to resort to the exceptional procedure of loans.

France then showed to all, her material and moral resources, her possibilities, her assets at home and overseas, the inherited qualities of her race, the results already compassed and her programme of action. She appealed to the confidence not only of her own people, but of the whole world. This appeal was heard, and, between 1920 and 1924, she drew to herself huge amounts of French and foreign capital. Fortified by this accretion of resources, and mostly by the confidence which they evidenced, she was working for her financial reconstruction and the restoration of her currency.

This does not mean that, in the field of taxation, France meanwhile did nothing. The great effort made in this direction by her since the war is not generally known, and some people seem to think that her present difficulties are due to a lack of financial courage, that she refused to increase her taxes, and thought of nothing but self-enjoyment after the war. A few figures, and a comparison with the corresponding figures of other countries, will suffice to dispel these fallacies.

In 1925 taxation charges in France were equivalent to 28·2 per cent. of the national income, while in Great Britain they were 22·3 per cent., and only 11·7 per cent. in the United States. Meanwhile, the national income

in France was decreasing, while elsewhere it was on the increase. Between 1913 and 1924 the French national income, calculated on the mean rate of exchange in the year, fell from 6,950 million to 6,675 million dollars; in England, during the same period, the national income rose from 10,760 million to 16,770 million dollars, and in the United States, from 35,000 million to 67,000 million dollars.

From 1913 to 1925 the rate of increase of taxation collected for the State has been 701 for France, 421 for Great Britain, and 466 for the United States; for local taxation, the rate of increase in France has been 436, for Great Britain 224, and 308 for the United States. The increase of charges thus resulting per head of population has been 645 for France, while it reached 366 and 305 for Britain and the United States respectively.

The following table shows these increases of charges according to the index figures for retail prices, still for the same period, 1913-1925 :

	France.	Great Britain.	United States.
Taxes collected for the State ..	812	421	466
Local taxes	436	224	308
Total of taxes	731	361	357
Increase per head of population ..	734	366	305

The increase is especially noteworthy as regards direct taxation. The proceeds from all direct taxes totalled in 1913, 634 million, and 730 million in 1917. With the addition of the income tax, this aggregate rose as early as 1919 to 1,069 million, to 3,495 million in 1921, and to 4,535 in 1923, that is to say, a percentage of increase of 714 per cent.

These few figures give an idea of the effort accomplished in this direction, and it is but right to call attention to it, since it shows that the whole country submitted to heavy sacrifices and co-operated in carrying out the stringent programme outlined by the Government.

From the very first days of 1920 inflation was stopped, and the State was beginning to refund the advances made by the Bank of France during the war. In four years the debt of the State was thus reduced by 5,000 million francs, and circulation improved to that extent. This

was an important result, but more was required. It was urgent to convince the country of the necessity of *producing more and consuming less*, and that these two processes, positive and negative, were indispensable for the efficient working of the machine; for it was not going to be possible to repair the damages caused by the war through legislation tending to less work, nor could one restore national economy by some policy of barren restrictions. The question was, not to reduce one's vitality, but, like an athlete, to strain every muscle and give the best of one's strength towards the common effort.

In thus asserting her self-confidence, France won the confidence of the whole world, trusting in a country whose traditional virtues in the past, now rejuvenated, appeared as the safest guarantee for the future.

Confidence—a word which is now repeated everywhere and rather overworked, perhaps, but which remains in this matter, as Rudyard Kipling finely put it, a "master-word." With confidence no problem is insoluble.

As soon as the budget is balanced, when each item of expenditure can be faced by a corresponding receipt, so long as people who save or speculate give their confidence to the State, as short-term bonds are being automatically refunded, as the debt is gradually consolidated, so long as the idea remains abroad as well as in France that there are no better and safer investments that the stock of "France, Limited," then will the Treasury problem be non-existent. In fact, from 1920 to 1924 it never was acutely thrust on the three Finance Ministers who were at the Treasury during this period.

If, on the other hand, as the result of the will of France to recover, of a continuous effort in the same direction by Governments inspired with the same spirit, foreign markets keep in reserve or increase their holdings of French currency, the exchange problem appears beset with no insuperable difficulty.

Without confidence, however, what happens? It seems clear enough that for the last two years facts have supplied the answer. Confidence has gone, and, as if driven by some powerful force-pump, foreign capital which had formerly rushed to meet the appeal of the French State, fled back almost as fast. The reason is, that a political upheaval like that which took place in 1924

cannot be without effect on such a sensitive matter as finance. In breaking away from the policy followed before their advent to power, in taking up its very counterpart as their own policy, the new rulers could not expect to keep intact the framework on which their predecessors had begun to build. From the first, however, certain facts occurred and certain tendencies became evident which cannot but cause uneasiness, and which, all of a sudden, invested with singular gravity a problem which until then had been on the way towards a peaceful solution.

It is not intended here to enter on some polemical dispute, or to recall past facts of which the sequel has shown the gravity; but it is impossible not to dwell on one of the causes of this uneasiness, and on the financial danger with which one was confronted as early as in 1925; from the day when there was reason to fear the return of inflation, the dangers of which had been pointed out by all instructed minds, and the dreadful results of which had been seen elsewhere. From that day confidence, which was already shaken, disappeared.

On the downward path of inflation it is difficult to stop, and the rates of exchange are, like a thermometer, registering the progress of the sickness. As the proportion of healthy money grows less in relation to unsound currency, the value of the currency sign goes down. A glance at the exchange graphs is sufficiently convincing. The successive inflations of 1925, for all that they became legal as from April, made the currency problem more and more difficult to solve, while they irretrievably compromised the possibility of revaluation of the old French currency. The inflationist mistake thus brought to naught the serious efforts which had been made on the other hand in the sphere of the budget, efforts which it is only fair to acknowledge.

The balance of the receipts and expenditure of the State, for which one had striven for a long time, was reached, and it can be maintained through a stringent reduction of expenses. As for the Treasury problem, which is psychological rather than technical, and rests mainly on confidence, will it be possible to solve it if one persists in dealing along the same lines with the taxation issue ?

The taxing system at present in force, and more

especially that with which we are threatened, appears to me to rest on a fundamental error. It strikes at persons, instead of reaching at things. As such, this system is immoral, unjust, anti-democratic, and too often inefficient.

If the tax struck at things, at the moment of the generating fact, it might then hit upon the real expenditure, and not upon the wealth which makes this expense possible. It would bear on the consumer, not on the producer. It would all but completely preclude evasion. English readers need not be told about the merits of real taxation, as opposed to personal taxation. The latter's immoral character should be clearly put in evidence.

To-day, in France, the more a man works and strives to produce, the more he is progressively taxed—the more he tries to be thrifty and save, the more rapidly does the taxation scale ascend for the benefit of the State. The income tax, considered from this aspect, as well as the tax on wages, and the death duties, as seen by latter-day theorists, will have but one result—they will kill the taste for work, destroy the virtues of thrift, weaken the spirit of family tradition. How can one ask a man to work more, to put forth a greater effort, if he knows that in the long run the best part of his work will go to the State ? How can he be induced to save if he cannot dispose of the fruits of his thrift ? How shall the family spirit be maintained, that subtle bond which links the generations together, if through excessive death duties what was spared by taxation in the first generation is mulcted in the one that follows ? English legislators take good care on the contrary, especially as regards the transmission of estates, to keep alive this spirit of family tradition, without which a nation cannot stand.

Even the best devised taxes are not sufficient to solve Treasury problems. It is necessary to bring in those moral forces which some people think it clever to despise. Our own generation, still reeling under the effects of war, must be given time and the possibility, not to rest and collect itself—there are other things to do than meditate just now—but to work more and work better. Of what use can levies be, even if carried out according to the purist Marxist doctrine, if at the same time it looks as though one was trying to check the

economic development of the country, if the worker is despoiled of the fruits of his labour, and the citizen who saves, the robust builder of prosperous cities and great nations, is deprived of his savings, depleted in his resources for the future, shaken in the confidence which he had granted to the State ?

Work, then, ought to be protected, instead of being discouraged. The freedom to work should not be fettered with some new shackle every day. It is not by reducing the hours of labour, proclaiming the right to strike, and persecuting the most sedate and efficient elements of the population that our country will be reconstructed. It is not enough to call for an effort; one must take good care not to nullify its effects in advance.

Although it is not easy to cure the evil, there is thus no difficulty at least in determining its causes. Confronting a satisfactory economic situation, we have an anxious financial position, caused by the lack of confidence, both in those in power and more especially in those whose impulses they obey. The problem has now reached an acute phase. In spite of all its sound elements, in spite of its resources, its courage and mental acumen, the country is swayed by the most dangerous currents of the political sea, and sees nothing ahead but an increasingly dark future. How is one to choose between all the roads which are offered, all equally beset with dangers —the easy but deadly path of inflation, the degrading road to bankruptcy, the way pointed out by the theorists, the so-called holders of technical secrets, which leads one nobody knows where ?

There is another road which in my opinion is the way to salvation. However grave the situation may be, I decline to believe that it is hopeless. In the first place, because a great country like France cannot disappear or be enslaved as long as it can support its splendid past with magnificent possibilities for the future. In the second place, because common sense still remains the chief quality of our race, and, when the clouds are dispelled, this sound sense will resume its sway in financial matters as in all the rest. Last, but not least, because the problem no longer is technical, but has become a purely political problem, that is to say, on the whole a moral problem.

When the body politic, crushed under the weight of our fiscal armour, begins to breathe again, when those two elements are freed at last on which all economic life depends, namely, work and thrift; when the essential liberties of acquiring, possessing, and bequeathing have become real, then, without any clever theories or intricate programmes, through the irresistible power of the forces thus set free, the problem will be more than half solved.

France is suffering from the currency evil, which is the most visible form, and the most striking for our imagination, of the economic crisis which shook the whole world after the war. This crisis no country has been able to escape; in no country has it been finally solved. One often forgets that France had to meet the same problem as other nations, but immensely increased by the Reparations question. Although she has been unable to follow closely enough the example of other nations whose wise and courageous policy saved their currencies, can one forget the fact that at any rate she has kept up her economic health? In reconstructing her industrial plant, rebuilding her devastated areas, organizing the country's output, preventing altogether every form of unemployment and social unrest, she has enabled the nation to tackle the currency problem without weakness, although not without anxiety. It is a grave problem, yet not the only one with which a country may be faced.

When foreign countries sometimes judge our own severely, they ought not to overlook either the efforts accomplished in another sphere than that of currency, nor the remarkable results which we have obtained.

. . . . . .

The road to which I point may seem dismal to those who believe in the virtue of marvellous remedies, in the stroke of a magic wand. This solution requires painful sacrifices and prolonged efforts; it can only be followed if one possesses a will to save oneself, through hard work, thrift, and a spirit of mutual co-operation. It is the only way, however, and I remain absolutely confident that my country will some day follow it.

Much has been said of late about the true face of France. For centuries past that face has not changed; it is the face of a hard-working peaceful race, and of a race who will not die.

The Finance of Empire Marketing

By the Right Hon. William Graham, M.P.

Chairman of the Public Accounts Committee of the House of Commons

IN general debate the finance of the various schemes of Empire marketing is very imperfectly understood; and probably the best course is to fall back upon the simple history of the proposal.

The Imperial Economic Conference of 1923 recommended a preference to Empire producers, within the British market, on certain restricted classes of foodstuffs. To this recommendation effect was refused by the British Government some time later. In December, 1924, Mr. Baldwin announced the appointment of the Imperial Economic Committee, whose objects were to encourage a voluntary preference for the Dominions and Colonies as regards that part of the home market which could not be supplied by the home producer; to promote precedence for home produce, with that of the Empire second and the commodities of foreign countries third. The present Government also announced that they would set aside £1 million a year for the purpose of developing British trade with the Empire; that that sum would represent roughly the value to the Empire producer of the preferences recommended by the Imperial Economic Conference, to which effect had not been given; but the Prime Minister was careful to add that the grant was not to be treated as one of compensation, but rather as a means of opening up entirely new and untried ways of developing trade with the Empire.

In substance these general facts are recalled in the first report of the Imperial Economic Committee, issued in 1925. Dealing only with the general problem and basis of the scheme, the report recognized that the committee was precluded from making recommendations involving preference by way of the operation of tariff; that subsidies were only to be adopted in special cases; that attention should be directed immediately to the organization of the British consumer with a view to his exercising a preference for home and Empire products; and that for the time being at all events everything rested on a voluntary foundation. It was considered essential that

home and Empire goods should be readily identifiable; the current Parliamentary debates on the Merchandise Marks Bill indicate one route by which this end, amid much strenuous controversy, is patiently sought. Further, the overseas producer was asked to recognize that the burden rested on him alone of meeting the demand of the British market for the quality, quantity, and continuity of supplies.

Certain broad economic arguments were advanced in support of the comparatively simple initial finance. The publicity to be undertaken would plead that purchase within the Empire created an increased demand for the manufactured goods of the United Kingdom and stimulated employment at home. In certain lines Empire produce excelled in quality, and was available in adequate quantity. The consumer had at his command for the purposes of discrimination one or two indications of origin legally prescribed. Overseas settlers from Great Britiain raised a demand within the Empire, and continued to purchase British goods to a greater extent than they did if they went to foreign countries.

Reference was made to the fact that in the overseas markets of the Empire more than anywhere else Britain continued to hold her own; head for head the inhabitants of the Empire were by far the largest importers of the products of British capital and labour; on the basis of the figures taken in the preliminary report the population of the United States would have to grow to 400 millions before the consumption of British produce and manufacture equalled the present total consumption of the 27 million inhabitants of the British self-governing Dominions. In 1924 the *per capita* purchase of British produce and manufacture in the self-governing Dominions was £6 17s. 3d.; in Europe, excluding British territory, it was 12s. 1d.; in the United States it was 9s. 6d., and in the countries of South America, excluding British possessions, it was 18s. In summary, therefore, the development of marketing on these lines appeared to point to the greater prosperity of the overseas Empire; the better distribution of the white population within the British Commonwealth; the increased employment of the people who remained at home; and with migration thus encouraged, the investment of capital and promotion of the material development of the Empire rather than that of foreign countries.

But in the wise application of £1 million a year from

British taxpayers it was clear from the start that attention must be concentrated on the ultimate purchaser and consumer; to him, as the committee indicated, we must look for motive force. It was accordingly suggested that more than half the proposed annual grant should be devoted to the inauguration of such a movement. Somewhat on the lines of the Development Commission or the Forestry Commission an executive commission was proposed. Given greater freedom than that accorded to the ordinary Government department necessarily subject to strict Treasury control, it was thought that a small commission was most desirable. Certainly there was a strong feeling that no attempt should be made to secure the representation upon it of all the many competing interests. The plan was described as one which sought to translate the latent feeling of the economic benefit of buying within the Empire into a practical scheme under State guidance and on a scale commensurate with the facilities of the Empire. Such a commission would require to see that any scheme which was prepared was worked in such a way as to take into account the interests of home producers. It rested on the free will of producers and consumers; there was nothing in it to destroy individual initiative; and it was regarded as safe to assume a greatly increased efficiency if producers within the Empire were to hold their own with producers outside.

After much discussion it was proposed that 65 per cent. of the annual grant should be devoted to the promotion of the purchase of Empire goods within the United Kingdom. To a large extent that would be achieved by means of simple publicity in the broad facts. Of meat consumed in Great Britain in 1924, for example, 44 per cent. was home production, 12 per cent. was Imperial production, and 43 per cent. came from foreign countries. The home and the Imperial contribution could be substantially increased. In wheat in the same year 18 per cent. was home production, 43 per cent. Imperial, and 39 per cent. foreign. As a plain financial proposition a million a year would break up into trivial sums if it were distributed among a number of industries in the different parts of the Empire. For the time being at all events there would be substantial centralization of this phase of effort. Again, any scheme of direct subsidy to the producer would raise considerable difficulty on both constitutional and practical grounds. Broadly, the aim was to stimulate demand for Empire products;

doubtless the allocation of 65 per cent. to publicity and kindred work would mean a return to the individual producer which it was less easy to measure than direct subsidy, but in the long run the suggestion was that it would be none the less valuable. Since general schemes would require time for development the Imperial Economic Committee recommended for the early attention of the executive commission the industries which were disappointed in the particular preferences in customs tariff which the conference of 1923 had in mind.

Having disposed of publicity and education in this way, the next suggestion was 15 per cent. of the annual grant for the purposes of research, and by that was intended research chiefly on a commercial scale. This percentage has been described as inadequate. But it should be observed that sound proposals in research cannot be offered without serious and often prolonged consideration; and there is still difficulty in recruiting the necessary personnel with the skill and experience which the duties abundantly require. Finally, it was thought that meantime the remaining 20 per cent. should be applied to other schemes, such as the development of the trade in fruit, particularly in the produce of the tropical portions of the Empire; to the carriage of pedigree stock between the United Kingdom and other parts of the Empire; and to any other proposals which came within the terms of reference of the committee. With a recollection of the fate of unexpended balances in the British financial system, the committee proposed that any balance remaining unspent at the end of the year should be carried forward and should not revert to the Treasury. The cost of the commission itself would be small, and would form a charge on the schemes.

Such in bare outline is the present financial mechanism of the new programme in Empire marketing. No attempt has been made to discuss the merits of the allocation, or to analyse the probable economic effects. At this stage everything is in the realm of initiation. Irrespective of party there is a desire to give all possible encouragement to the movement; but it is clear to all public and private business interests in Great Britain that if the larger proposals are to succeed the greatest care must be exercised to ensure that the £1 million a year which British taxpayers are providing does not degenerate into an ill-concealed subsidy of certain powerful home or overseas interests.

Banks and Insurance Companies

By P. C. Crump.

THE conduct of a modern insurance company calls for considerable knowledge and experience on the part of those responsible for the administration of its various departments, and possibly the most interesting section to the banking community, and certainly one of the most important to the company itself, is that which deals with the investment of its funds.

The maintenance of a satisfactory rate of interest is such an important factor that it is difficult to imagine how an insurance contract could be made unless the premiums paid could be usefully employed and increased by the operation of interest for the benefit of the insured. Certainly a very different scale of rates would have to be charged in all branches, but more particularly in the life department where the reserves held against the various policies are of such paramount importance.

An insurance company has much in common with a bank in this sphere of its operations in that it finds itself in receipt of a constant stream of money which must be utilized as profitably as is consistent with security of capital, if the business is to achieve complete success.

The investment policy, however, is influenced by an important difference in the nature of the two concerns, for the insurance company enjoys practically complete immunity from large and sudden demands on its liquid resources (which immunity is further strengthened by the re-insurance of a substantial portion of all large insurances with other offices), whereas no means have yet been devised of affording total protection to a bank against this emergency in the event of a financial crisis.

Again, heavy claim experience such as may arise from a serious outbreak of disease or from a shipping disaster is, of course, unavoidable, but in all such instances a certain delay for the investigation of large claims is inevitable, and this affords sufficient opportunity to realize securities on the Stock Exchange should such an extreme measure be found necessary.

In ordinary circumstances, however, an insurance company in a normal state of progress is assured of a sufficiency of ready money through the channels of its premium income, interest and dividends on its investments, and maturing securities, and it is thus in a less restricted position, both as to marketability and the duration or term of the bulk of its investments, than is a banking institution. In other words, whilst a bank is bound to keep a certain proportion of its funds liquid and easily realizable at short notice, a well-established insurance company has no need to take such a precaution.

Arising out of this essential difference is the growing custom by municipalities and other public bodies to avoid the expense of a public issue of stock by approaching such institutions direct with proposals for borrowing money. The advantages obtainable are apparent, as the borrower avoids a considerable portion of the expense attaching to a public issue, whilst the lender is usually able to obtain more favourable terms than would be the case if the issue were marketed in the ordinary way. Frequently in loans of this nature the borrower is willing to place valuable insurances with the office as an additional attraction.

Much interesting information may be derived from an examination of the changes which have taken place during the last thirty-five years in the balance sheets of the joint-stock banks and insurance companies. In the case of banking institutions, the percentages of the various items in the balance sheet to total liabilities in 1890 show little variation when compared with the figures for the year 1925. The most important feature is the increase in the percentage of deposits to total liabilities by about 8 per cent., and a similar decline in the percentage of capital and reserves, a state of affairs which may be ascribed to the normal growth of joint-stock banking during the past thirty-five years, and to the expansion of credit occasioned by the Great War.

The percentage of the investment holdings has fallen by approximately $2\frac{1}{2}$ per cent. during the period under review, but it may be noted in this connection that the fixed assets included under this heading have probably

not shared in this decrease, for the share holdings in subsidiary companies have been augmented very considerably in late years by reason of numerous amalgamations and absorptions. Similarly, branch offices which now total approximately 10,000, are nearly three times as numerous as was the case in 1890, indicating a much larger interest in freehold and leasehold premises. It is probable, then, that the decrease in the proportion of readily marketable securities is rather more than the 2½ per cent. mentioned above, but this is counterbalanced by the fact that the percentage of cash in hand and money at call and notice shows an increase of approximately 3 per cent.

The irregularity in the methods of presenting accounts prior to the introduction of the standard schedules contained in the Assurance Companies Act, 1909, makes an accurate comparison of changes in the investments of insurance companies somewhat more difficult. The fluctuations are, however, much more marked, and this is due to the much wider field available for investment and the greater degree of freedom which such institutions now enjoy.

The favourite form of security thirty-five years ago was undoubtedly the mortgage, and this accounted for about 39 per cent. of the total investments. At the present time this percentage has decreased to approximately 10 per cent., although it is more than likely that securities which would formerly have appeared in the balance sheet as mortgages are now present under the heading of debentures, many borrowers having taken advantage of the facilities available at the present time for obtaining money by means of public issues.

Another important change is the increased holding of British Government securities occasioned by the support which insurance companies gave to the Government issues during and after the Great War. During this period the Treasury thought fit to suggest that the assets of insurance companies and similar institutions should include at least 20 per cent. of British Government securities. This figure has been largely surpassed, however, and in several instances the total represents a figure in excess of 40 per cent.

Prior to the war the extremely low yield on this class of security prohibited its inclusion to any great extent among the assets of an insurance company, a fact which accounts for the very small proportion of 3 per cent. invested under this heading at the commencement of the period under observation.

There is also a very noticeable tendency in recent years to take an increased interest in foreign securities. The reconstruction of Europe has been responsible for the appearance of a number of very attractive and well-secured issues both in London and New York, of which British insurance companies have not been slow to take advantage. The improvement in the pound sterling on the resumption of the gold standard has also caused increased activity in American and Canadian securities, many remunerative and well-secured public utility loans finding their way into British hands.

Apart from these individual fluctuations, however, it is interesting to note that insurance companies pursue a much more active policy in regard to their investments than was formerly the case. The days are past when securities, once purchased, were locked away and left to take care of themselves. Constant supervision is now the rule, and the modern company employs an important section of its staff in gathering information as to the position of its existing holdings, as well as to suitable openings for the profitable investment of its funds in other directions. In addition, the value of the Stock Exchange transactions to stockbrokers insures the pick of the market being submitted to the companies.

The continual and careful attention given to its investments enables an office to depart from a hidebound adherence to gilt-edged stocks with comparative safety, and to enjoy the benefit of the increased yield obtainable from such securities as debentures and preference shares in the leading industrial concerns of the country. Indeed, there has been a tendency of late to consider the ordinary shares of the more important commercial concerns, especially where reserves are ample, prior charges not too heavy a handicap, and a favourable outlook exists for the industry in question.

In pursuance of the policy of taking the fullest

possible advantage of market fluctuations, every opportunity is taken to exchange from one security to another of similar terms and merit, where a profit is to be secured. These transactions are often of considerable magnitude, and are worked out to very fine limits. It is not uncommon for the market pendulum eventually to swing in the opposite direction, and this affords the opportunity of re-exchanging into the original security.

The operation of sinking funds at known intervals by the purchase of stocks and bonds on the market is usually the cause of a temporary improvement in price of securities redeemable by such means, and affords opportunities to the careful observer to make a favourable sale and subsequent repurchase at a lower price.

It also frequently happens that the market is caught short of a particular stock and is willing to pay for the loan of stock over a limited period. Collateral security is deposited with the lender, who receives an agreed rate of interest on the market value of the stock or on the nominal amount. The profit which is thus obtainable, which involves practically no risk at all, helps to increase the yield from such securities.

According to the Board of Trade Returns for 1925 the total assets of British insurance companies amount to £888,000,000, and although from the nature of the two businesses it is scarcely to be expected that this figure can bear comparison with that of banking corporations, yet the very large proportion which is available for purely investment purposes is responsible for much close intercourse between the principals of issuing houses and the investment officers of insurance companies, whose advice is not infrequently sought and valued in the investigation of proposals for marketing new issues of capital.

The amount of support given to a new loan by insurance interests is often the determining factor in the success of the issue, especially where the terms of the loan approximate so closely to prevailing market prices as to be comparatively unattractive to the general public. An increased interest is frequently given to these issues by the offer of a participation in the underwriting of the loan, for if the office limits its operations

strictly to the amount underwritten, the maximum ledger value of any amount which the company may be required to take up must be at least lower than the issue price as reduced by the amount of commission received.

There are few offices at the present time which do not have occasion to concern themselves with foreign exchange movements as a result either of insurance business conducted in foreign countries or of investment holdings payable in foreign currency, and much valuable protection against exchange fluctuations may be gained by the intelligent use of forward dealings in currency.

The subject is one of great interest and well repays those offices which are prepared to devote more than a cursory attention to the requirements of their business in this direction. Needless to say, they will receive much valuable advice from their confrères in the banking world whose knowledge of this branch of finance has been learnt in the excellent school of long experience.

Broadly speaking, banks and insurance offices do not compete for business; each has developed along its own particular lines, and the one is a help rather than a hindrance to the other. With their wide ramifications and numerous branches they have been in the past of great assistance in helping to promote each other's welfare, and there is undoubtedly scope for still further co-operation in the future.

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BANKING IN AMERICA

SPECIAL THE BANKER SECTION

By Our American Correspondent

MEMBERSHIP in the Federal Reserve Bank of New York has now reached a total of 900. Shortly after this bank opened for business, toward the end of 1914, the membership was 479. Aggregate resources of these members at that time were about $2,500,000,000, compared with about $12,500,000,000 at the present time. At first the membership was made up entirely of national banks, whose membership was compulsory, but now in addition to the 746 national bank members there are 154 State banks and trust companies having voluntary membership.

Not only is the Federal Reserve Bank of New York much the largest of the twelve institutions, having more than double the aggregate resources of the next largest bank—the Federal Reserve Bank of Chicago—but its resources are more than one-third of the aggregate of all the Federal Reserve banks.

The entire resources of all the Federal Reserve banks are now just a little short of $5,000,000,000, which compares with $12,500,000,000 for the members of the New York Federal Reserve Bank alone. In making this comparison it must be remembered that the Federal Reserve banks derive their resources in the first instance from a percentage of the capital of the member banks and their reserves. These funds are increased by Government

and foreign bank deposits, etc., but by far the largest item of deposits consists of bank reserves (about $145,887,000 out of a total deposit item of $146,573,000).

It was one aim of the Federal Reserve Act to diminish the relative power of New York with reference to the banking system of the country as a whole—an intention frequently declared by the sponsors of the measure and by the terms of the Act itself. When the Reserve Districts were established, both Philadelphia and Boston were allotted some territory generally regarded as commercially contiguous to New York. But despite this fact the New York Federal Reserve Bank has far outdistanced all the others in size, as it has done also in the leadership it has exercised over American banking and finance. This latter achievement has been due, in no small part, to the sagacious policies fostered by Mr. Benjamin Strong, Governor of the Bank, and a recognized financial power on both sides of the Atlantic.

Check to the Inflow of Gold to America.—At the end of our fiscal year—June 30—two facts stand out clearly enough: a decline in the so-called "favourable" trade balance, and a decided recession of the inflow of gold to this country. The indicated volume of foreign trade for the present fiscal year is approximately $9,000,000,000, compared with $8,040,000,000 for the preceding year. But the "favourable" balance last year was in excess of $1,000,000,000, while this year it will not be more than one-third as much. These figures are liable to slight revision when official reports are complete, but they sufficiently indicate a turn in the foreign trade movement of this country in the direction of a greatly diminished volume of net exports.

This change is naturally reflected in the gold movement. For the eleven months of every fiscal year since 1921, up to last year, the net imports of gold into the United States have ranged from over $200,000,000 to over $400,000,000. Last year the net exports for the eleven months were upwards of $112,000,000, while for the same period of the year just closing the net imports were only $81,000,000 in round figures.

From this it will be seen that this country is selling less abroad in proportion to what it is buying, and that for what we sell we are taking more goods and less gold

than in other recent years. Such a result is looked upon as due to several causes : the large gold stock already in the country and the undesirability of its further augmentation, the difficulty, especially in Europe, of procuring gold for export, and the large and growing demand in this country for rubber and other raw materials essential for use by our manufacturing industries.

At this season of the year the large expenditures by American tourists in Europe constitute an important seasonal factor in influencing the exchanges and in tending to keep gold on your side of the water. This factor promises to grow larger year by year, and is one to be taken into serious account in considering the future gold movement between Europe and the United States.

Bankers and the Railways.—A suggestion has been made of late by the chairman of the Interstate Commerce Commission that the existing mode of financing the railways through banks be supplanted by the offer of railway securities direct to the public or the banks by competitive bidding. His view is thus stated :

"In the purchase of equipment the usual practice is to secure competitive prices from car and locomotive companies of recognized standing, and the same practice is ordinarily followed in the purchase of supplies and other items of property. . . . When it comes to the sale of securities, however, railroad companies follow quite a different policy. They throw competition into the discard and grant monopolies to particular banking-houses."

The implication of the above is that the respective banking houses having charge of railway financing are placed in a favoured position, which enables them to sell the securities in a manner specially advantageous to the issuing houses and at a price less satisfactory to the railways than could be obtained were the securities offered to the highest bidders, whether banks or the public at large.

As opposed to this view it is held that the relation of the railways to their bankers is somewhat akin to that of the professional man and his client, and that the bank frequently renders to its railway client valuable services other than the sale of securities. Should the present method of floating securities through a banking house be

supplanted by the offer of these securities to the highest bidder in the open market, there is always the risk that the price obtained may be less favourable than that offered by the banking house, or that the issue might fail to be subscribed for at all should money market conditions be unfavourable.

As opposed to the view of the chairman of the Interstate Commerce Commission may be set down the following opinion respecting the matter from Mr. Thomas E. Woodlock, himself a member of the Commission:

"In passing upon security issues by railroads, I conceive our main duty to be that of securing the lowest possible cost of capital to the issuing company. Whatever method of security sales will produce that result is, I take it, the method which should be approved by us.

"It is because I am not convinced that, taking the investment market as a whole, with all its fluctuations and changes in conditions of supply and demand, a radical change in methods would give cheaper money to the carriers, that I am opposed to any attempts to impose such change at the present time."

An Active Stock Market.—Since early in the present year the New York stock market has been marked by several periods of unusual activity and violent changes in prices. At one time eagerness to sell, followed by sharp recessions of price, has been interpreted as showing either that speculation had been carried to an extreme, and that a reaction was due on this account, or as indicating a forecast by the Stock Exchange of a forthcoming period of depression. Subsequent doings in the market have negatived both these views. The market continues active, and prices keep on going up; or if they fall for a time, it only seems to mark a pause before the outbreak of fresh speculation and a further upward trend in prices.

Of late the market has been led by United States Steel Common, the advance in this stock being based on the belief that an increased dividend rate was likely at the meeting of the directors at the end of July. At the meeting in April the chairman intimated that the time might come when it would be proper to issue additional common stock as a dividend to the Common shareholders. He qualified this declaration, however,

with the further statement that such action could not be taken at that time.

But the intimation in question, continued prosperity in the steel industry, and the generally favourable business outlook, have all combined to afford buoyancy to the stock market. A factor of major importance that will soon become operative will be the crop condition, and should present promises be fulfilled the grounds for confidence will be still further enlarged, with added tendency toward speculative activity.

It was believed by many that the price recession witnessed in the stock market in the early spring foreshadowed a gradual slowing down of the business pace in this country, marking the beginning of a period when we should proceed more normally; but the recent fresh outburst of speculation does not sustain that view. It is therefore not unlikely that when the halt does come its appearance may be rather sudden and, perhaps, unheralded.

U.S. Treasury Position.—The indicated surplus of the United States Treasury at the close of the fiscal year (June 30) was about $400,000,000, so that it was unnecessary to borrow to meet current expenditures and to pay off about $300,000,000 of the short-term debt which matured on June 15. Not only have income-tax payments thus far outrun expectations, but customs receipts have been unusually heavy.

Quarterly borrowing, except in the above instance, has been necessary ever since the present plan of financing the debt left by the Great War was devised, and the situation is particularly gratifying in view of the fact that the Treasury has immediately ahead of it important re-financing problems. There are some $2,568,000,000 of the Third Liberty Loan bonds, bearing 4¼ per cent., to be provided for in September of next year, and in the coming two-year period about $2,000,000,000 short-term Treasury notes come due, bearing approximately the same rate as the bonds.

If present easy conditions in the money market continue, and the Treasury returns show a surplus, as in recent months, the refunding of the securities in question will, it is believed, present no serious difficulties.

Economy in Government operations, prosperous business conditions, and better tax yields than expected have all contributed to keep the Treasury in a comfortable position. Secretary Mellon's skilful handling of the public finances is widely recognized. He has had large and difficult problems to meet since he has been at the head of the Treasury. His record has already placed him among the country's most capable Finance Ministers.

Improving Condition of American Railways.—A reliable index of American business prosperity is furnished by recent railway reports. "The Chronicle" reports for April, covering 236,518 miles of railways, show gross earnings increased by $25,818,489 as compared with the same month in 1925, whereas in the same time the operating expenses went up by only $14,054,193.

Commenting on this better showing of the American railways, "The Chronicle" says:

"There is no sign of any let-up in the expansion in revenues of southern roads (as a consequence of the constant development in that part of the United States), which has been in progress so long, while the eastern trunk lines in the great manufacturing sections of New England and the Middle and Middle Western States continue to give evidence in their revenue statements that industrial activity, though having slackened to some extent since the early months of the year, is nevertheless on a larger scale than at the corresponding period in 1925.

"The continued development of operating efficiency is indicated by the fact that the ratio of expenses to earnings in April, 1926 (not including taxes) is only 76·99 per cent., against 78·22 per cent. in April, 1925, and, we might add, as against 79·45 per cent. in May, 1924. If we should go still farther back, say to 1920, when the roads were still under Government control, we would find that it then cost to run the roads over 100 per cent. (leaving taxes entirely out of consideration), inasmuch as at that time the roads fell $2,875,447 short of meeting their bare running expenses. The wonderful progress made since then is attested by the fact that in May, 1926, as we have already seen, the total of the net earnings *above* expenses was $114,685,151. In the interval gross earnings have increased less than $97,000,000, indicating that in 1920 it cost $404,480,142 to earn $401,604,695, while in May,

1926, $498,448,309 was earned with an expenditure of only $383,763,158."

One direct result of this greater efficiency in the operation of American railways will be that the roads will be enabled to meet fresh financial requirements out of stock issues rather than by the sale of bonds, since railway stocks promise to offer attractions lacking for several years past.

There are two influences that may operate to somewhat darken this favourable outlook. Congress, ever intent to court the agricultural vote, will be more disposed than ever to urge a reduction of freight rates on farm products, as the roads are making more money, and employees of the roads have already been moved by the increased earnings of their employers to ask for higher wages. If the new law providing for mediation and arbitration of controversies between the railways and their employees proves effective, this demand will be adjusted without resort to a strike.

ENGLISH LIFE 1/-

The Responsibility of Company Directors

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Banking Law

By a former Gilbart Lecturer

IT is unfortunate that some of the cases of real practical interest to bankers are never reported either in the official Law Reports or the *Times* or other newspapers. It is true the *Times* covers a good many omissions from the regular reports of the courts, but the fact remains that bankers miss many cases of utility. We have endeavoured in these notes to make good the deficiency wherever possible, for we realize that the banker's interest in the law is not academic, but practical. An ounce of fact is worth a ton of theory, or, put in another way, one may have a good knowledge of first principles of commercial law, as most bankers have, and yet daily practice produces many problems which cry aloud for guidance in the practical application of those principles to a kaleidoscopic variety of circumstances. This guidance is to be found in a careful appreciation of the actual facts which are presented by the cases which came before the Courts for decision. Hence the banker should never omit to mark and study every judgment of the Courts which bears upon the experience of his colleagues in the definite instances under review in litigation.

One of the cases unreported, save in THE BANKER so far as we can ascertain—yet of undoubted practical interest—is recalled by a decision of the Court of Appeal on July 16. We refer to the case Fairbairn *v.* The National Bank, reported and commented upon in our issue of last March (Vol. I, No. 3) on trial of the action in the Court of First Instance. The Court of Appeal (Lords Justices Bankes, Atkin and Sargant) unanimously upheld the judge's decision in favour of the bank, and the facts and the judgments on them are quite useful as illustrating what Lord Justice Atkin described as "interesting questions of the law and practice of banking."

It is desirable to recall the facts: Lady Fairbairn, then being in the Tyrol, wrote on September 3 to the branch where she had her account requesting the manager to "send £250 on my behalf to F. Latham Warde, Esq., 29 Pembroke Road, Portsmouth, on receipt of his cheque

for £250, plus interest (which I have left him to fix), which cheque will be dated two months ahead, but kindly only send this £250 if you receive that cheque." In the evening of the same day she wrote another letter to the bank altering the mandate by reducing the amount to £150, and as against it his post-dated cheque for £157 10s., and added that she left it to the bank to ascertain that this cheque was a satisfactory one, and that it would be met on presentation. She had also written to Latham Warde making the same alteration of amounts. The bank never received this second and more restricted mandate from Lady Fairbairn, and the Court so found. Hence the former and original mandate for £250 was the only mandate received directly from the customer by the bank. But on September 6 the branch received a letter from Latham Warde to this effect: "In a letter received from Lady Fairbairn this morning her ladyship asks me to send you the enclosed cheque for £157 10s., date November 6 next, in exchange for which Lady Fairbairn states you will forward me £150, which kindly do in notes." The bank acting on Lady Fairbairn's original mandate, and on the letter from Latham Warde, sent the £150 in notes.

It turned out that the cheque Warde sent was not his cheque (he was an undischarged bankrupt and had no banking account), but his wife's cheque. She had a banking account, but it was not anything like in sufficient funds to warrant the payment of the cheque, which on presentation several times was refused payment and marked R.D.

Lady Fairbairn's original claim in the action was on the second letter, which the bank, in fact, never received; but by amendment she set up the alternative case that the bank was not entitled to debit her with the £150, because on the only mandate they admitted from her: (1) the sum of £250 was to be paid, and they had failed to observe it by paying £150; (2) they had departed from the mandate by paying as against the wife's cheque instead of, as authorized, against Latham Warde's one cheque; (3) they were negligent in that a comparison of the signature on the cheque with the body of the cheque and the signature of Latham Warde's own letter showed a clear dissimilarity which should have put them on inquiry, and that the most elementary inquiry would

have revealed that it was not Warde's cheque, and that he had no account. The bank very naturally answered that they had substantially performed the mandate. As to (1) the proper construction authorized them to pay the lesser account asked by Warde, which was within the limit of the £250; as to (2) and (3), that there was a general similarity in the signatures, and that they had a right to assume that Warde—who was trusted by Lady Fairbairn to fix the interest and to apply for the money—was a trustworthy person, and that there was nothing to put them on inquiry or to lead them to suppose anything wrong.

The bank went further, however, and set up that even if they had not in fact observed the strict letter of the mandate, Lady Fairbiarn had ratified what they had done and approved their payment of the £150 in the circumstances. They relied on the undoubted fact that before the maturing of the £157 10s. cheque Warde himself had written to Lady Fairbairn, asking her to return "his wife's cheque for £157 10s.," and offering to her "his wife's post-dated cheque" for £165 for a later date in substitution. The bank manager had also written to Lady Fairbairn immediately after paying the £150, stating what he had done, and there was no demur by her as to the amount paid. With knowledge of these facts Lady Fairbairn endorsed the cheque and instructed the bank several times to present it on her behalf. After this approbation of the bank's position she could not afterwards reprobate it.

The Court of Appeal unanimously upheld this latter contention of the bank of ratification, and declared that Lady Fairbairn had no ground of legitimate grievance against the bank. That was, of course, sufficient to dispose of the case; for, with knowledge of the facts, her subsequent adoption of the cheques by endorsement and requests to present were consistent only on the footing that the £150 payment was approved by her.

But the Court also dealt with the plaintiff's contentions (1) and (2) above, and on (1) unanimously held that on a proper construction of the mandate the payment of the lesser sum of £150 (all that Warde asked for) was justified. Here we give a word of warning. It must not be assumed that in every case where there is a mandate to pay a fixed sum a bank is justified in paying a smaller

sum. It is a matter of construction in the light of the surrounding circumstances in each separate case, and one can readily imagine instances where the actual sum and no other must be adhered to strictly, or if a lesser sum is demanded by the payee further instructions should be asked for.

As to contention (2) Bankes, L.J., thought that if that stood alone the payment as against a cheque of some other person might be open to question as not being in accordance with the mandate, and Atkin, L.J., went further and definitely indicated his opinion that the bank were under obligation to see to it that they were paying as against the cheque of the person designated; just as in the case of other documents on which payments are to be made, banks have to see that they strictly comply with the conditions imposed. The bank in such a case as this, for instance, should see that they obtained a cheque from the person designated and drawn on a bank where he had an account. And Atkin, L.J., based his judgment on the point on which the Court was unanimous, that of ratification. Sargant, L.J., accepted *in toto* the judgment of the judge below on all points. But it is well to observe Lord Justice Atkin's qualification and his adherence to the strict view that as a matter of mandate a bank must take the risk and cannot plead fulfilment unless the conditions of the mandate are, in fact, satisfied.

As to the third contention, that the bank was negligent, or should have been put on inquiry, Lord Justice Bankes well said that there was a general resemblance of signatures, and that, although on close inspection there was a variance, the bank could not be held to have acted unreasonably.

The ultimate result of the case was a complete vindication of the bank and the unanimous decision of the judge below and the Court of Appeal that the lady had no real ground of complaint against the bank, which admittedly had acted throughout honestly and in good faith, and with the single desire to carry out the wishes of its customer. But, apart from the plain ratification, the lady of the action of the bank, it is obvious that, technically, it was open to serious question whether the mandate had been obeyed with sufficient strictness—a situation which alone gave the plaintiff any excuse for litigation.

The Lord Mayor's Banquet to the Bankers and Merchants of the City of London

THE Lord Mayor and Lady Mayoress of London gave a banquet at the Mansion House on July 14 to meet the Chancellor of the Exchequer, the Court of Directors of the Bank of England, and the bankers and merchants of the City of London. The toast of "Prosperity to the Public Purse," coupled with the health of the Chancellor of the Exchequer, was proposed by the Lord Mayor, who said :

During the trying years since 1914 the bankers and merchants of the City of London had played no unimportant part. The bankers of this country had never been better equipped to discharge their important duties than they were to-day. Banking had become more international, and the bankers themselves had not been slow to realize the necessity of moving with the times. The Institute of Bankers had grown from a very small beginning to a powerful institution. On the boards of many of the banks were some of the great merchants of the City of London, who brought to those institutions much practical knowledge of international trade. If they could once establish a feeling of goodwill between capital and labour they need have no fear but that this country would hold its own and that they might look forward to the increased prosperity of the public purse.

The Chancellor of the Exchequer, responding, said :

He was sometimes doubtful whether anyone had mastered the mysteries of finance. In finance, perhaps more than in any other sphere of life, appearances were deceptive. The same symptom might mean different things, and might be healthy or unhealthy, according to its underlying cause. Money might be cheap; and people would say, "That is good." It might be dear; and people would say, "That is bad." But neither view could be correct apart from the cause. Money might be cheap, for instance, because enterprise was stagnant. It might be dear because industry was hopefully expanding. It might be cheap because there was an immoral inflation at work; it might be dear because sober measures of restraint were being applied. Exports might increase, either because we were becoming more efficient competitors or because we were selling our goods at a loss. Imports might increase, either because we were doing very profitable business abroad or because we were living on our capital at home. A

country's exchange might go up because it had a sound system of finance and a good balance of trade; or because that country had borrowed heavily abroad and was receiving its loan. Or, again, its exchange might go down because its finances were in disorder or because the country was making a far-sighted and beneficial investment abroad. They could not judge the symptom or predict the consequences without knowledge of the cause. The cause in itself was only a symptom traceable to some earlier cause, and good or bad, in accordance with that. Moreover, all those causes and symptoms were at work simultaneously, and all were reacting upon one another. No wonder everyone could spin interesting, connected arguments about finance in general, and nobody could say with any accuracy what was going to happen in a particular case. The human mind in our present state of development could no more solve with certainty the problems of world finance than it could devise a system of breaking the bank at Monte Carlo.

There were, however, some very broad simple truths which gave a sort of rough-and-ready rule-of-thumb guide through all these mysteries and tangles. In fact, the mysteries and tangles seemed to begin only when those very broad, simple guides were abandoned. The simple rules did not require any lengthy explanation. Everyone knew what they were. For instance, there was one invaluable rule for not losing money at Monte Carlo. That was—not to go there. It was the same in finance. The fundamental principles of all finance, public and private, were these: "Cultivate peace and goodwill. Work hard. Avoid profusion. Save. Buy Savings Certificates. Balance your budget and pay your way. Pay your debts. Pay them quickly. Let your word be your bond. Do a fair day's work for the money you earn, and make sure you are paid in an honest and stable currency." He did not think there was anything else. The infallible test whether any principle or method of finance was sound or not, was that in finance everything that was sound was disagreeable. Whenever there was any method or expedient in finance which it was easy and pleasant to adopt, they might be quite sure it was unsound. When they adopted unsound methods of finance, they got the pleasure at the time and paid the price afterwards. When they adopted sound methods of finance they paid the price at the time and got the reward afterwards. Accordingly a good Chancellor of the Exchequer always did disagreeable things, and was very likely to be criticized and scolded by ignorant and short-sighted people.

A people had the right to ask its Government for sound finance and stable currency. They were inter-dependent. Sound finance was essential to a stable currency, and could not itself exist apart from a stable currency. If the measure of value fluctuated widely, no computation of values could remain in equilibrium.

Sound finance and stable currency did not benefit the rich alone. On the contrary, it was the poor man who suffered most when lavish expenditure led to Budget deficits, and Budget deficits to borrowing, and borrowing to what is called "the creation of money" without any corresponding increase in the creation of real goods. It was the rich man who could transfer his wealth most readily into other currencies. It was the poor man whose narrow margins were soonest pinched by an increased cost of living. Sound finance and stable currency had been the financial policy of Great Britain, whatever party had been in power, ever since we emerged from the tumult of war. They were determined to persevere in it, and were confident that it would be for the benefit of all.

I am glad to think that, as far as one may judge by every organ of public opinion, as well as by the attitude and demeanour of the House of Commons, the settlement of our debt with France has on the whole been received with a very distinct and definite measure of public acquiescence. We could no doubt have won a good deal of praise in some quarters, which pass for instructed and are certainly articulate, if we had used the same rigour to our debtors as has been meted out to us. But I am sure it would not have been a wise or far-sighted policy for a British Government to win cheap cheers and a reputation for firmness by making demands which would never be agreed to or by making agreements which would never be carried out. The compact substance is worth more than the imposing shadow. The applause of the moment would be a poor compensation to us for the resentment, especially the suppressed resentment, of great nations across long periods of time. We have always held in this country that there are clear distinctions between war debts and commercial debts. The war debt is incurred for the purposes of self-preservation. It may save your life and country, or your ally's life and country, but it leaves behind no fertile or reproductive instrument or possession. What is blown away in shot and shell is not comparable to a transaction which leaves behind it, let us say, a railway, a mighty reservoir or a modern electric plant. Therefore, whereas an ordinary commercial debt, wisely contracted and expended, may raise the standard of living in both the lending and the borrowing countries, and consequently the general welfare of the world, the payment of a war debt, like all war expenditure, however necessary, can only depress the standard of living of the borrowing country. Further, it is bound to distort to some extent the productive industry of the lending country. War impoverishes the belligerents who, whether as victors or vanquished, have been compelled to resort to unproductive expenditure. Trade, on the contrary, is a fertile operation, which by an exchange of services or by productive expenditure promotes a higher and more harmonious economy. All the allies in the Great War have now made, or are making, arrangements to settle their debts with one another

over periods of two generations. The arrangements thus entered into must be most scrupulously respected and observed by the debtors, so long as the creditor so requires. But much may happen in two generations, and it may well be, in the best interests of the world, that a different view may prevail before that period is completed.

Alluding to the coal stoppage, Mr. Churchill said that the interruption of the vital fuel supplies of industrial Britain was producing grave and deepening effects upon the national wealth. The heavy basic industries, which were already the most depressed, and which employed the largest proportion of manual workers, were now rapidly coming to a total standstill. This re-acted upon the railways, with serious consequences to large numbers of railwaymen. It also reacted injuriously upon the revenue and on the general finances of the State. Neither the general trade nor the finance of the country, however, had yet suffered as severely as anyone would have expected beforehand. The most prosperous, active, and expanding businesses and trades of Britain, the trades on which the increases of revenue in recent times had mainly depended, were still standing the strain with remarkable endurance. Every one was hampered and checked, but the brunt of the misfortune was falling upon those parts of our island in which trade unionism was most powerful, and in which the political activities of trade unions had been most marked. It fell with incomparably less severity upon that vast sphere in which trade and enterprise could be maintained without the necessity of employing large masses of organized labour. This was illustrated by the surprising fact that unemployment, which rose during the general strike from less than 1,000,000 to over 1,600,000 (apart from miners and those actually engaged in the strike), had in the whole eight weeks that had since elapsed not risen by more than a further 30,000.

There were in this island, at present, two quite different sources of national wealth, on each of which the livelihood of many millions of our fellow-countrymen depended. The first, which included agriculture, commerce in many forms, and a thousand minor but fruitful industries, was to a very large extent not dependent either upon power in the form of great masses of coal or upon the concentrated labours of a great number of men. The second, though also vital to the national welfare, and though smaller and much more uniform in its structure, could not exist apart from the coalfields and organized labour. What was happening, therefore, in this crisis, and had been happening during the last few years in a less intense form, was that the most depressed industries had been further depressing themselves. What we were witnessing was the appalling spectacle of industrial Britain tearing itself to pieces while the larger portion of the nation remained far less severely affected by those convulsions.

The fruits of the policy pursued so recklessly by the more extreme leaders of trade unionism were now before their eyes. Nearly one-third of the whole trade union world had been for many weeks earning no wages, exhausting their small savings and their credit at the little shops, living helplessly on the rest of the community, or reduced to beg a pittance from foreigners, themselves underpaid. On the other hand, outside the trade union sphere, over the area of three-quarters of the workers of the country, including agriculture, the rate of unemployment was probably less than one-tenth. Moreover, the industries themselves on which and by which the trade union world lived, were among the most depressed and the least profitable industries in the country. In a very large number of cases they had been yielding for several years past no income to the employers, and consequently no revenue to the State. Those were the suicidal results of the policy which had been pursued under the influence of the extreme elements in the trade unions. It injured everybody, but it injured no one sooner, and no one worse, than those unfortunate people for whose welfare the trade unions professed to be responsible.

He wished to make from a national and non-party platform the most earnest appeal to the leaders of British trade unionism and to the leading spirits who were not always the leaders, not to pursue political aims at the expense of the bread-and-butter interests of the labouring people employed in the great basic industries. The traditional outlook of British trade unionism always used to be practical. While in many Continental countries the thoughts of the industrial population were being absorbed upon political theories, British trade unionism concentrated upon the standard of living, and did not allow itself to be divorced from the welfare of the industry on which its members depended. In these later days we had seen theories and formulas and so-called "slogans" pressed forward in a spirit of entire detachment from the material well-being of the working masses. The desire to build up a new world—after going through the preliminary process of breaking down the old—has been pursued, consciously or unconsciously, by a thousand paths, without the slightest regard to the effects of such a move upon the actual livelihood of millions of men. The result was that we were witnessing an immense impoverishment of industrial Britain and a steady breaking-down of the basic industries on which its life depended. He was not seeking to frame an indictment. He was only making an appeal. Every one was ready to help, but no one could help industrial Britain unless industrial Britain helped itself.

He had mentioned the trade unions because they were being drawn from their task and duty of looking after the interest of their members and the industries on which those members lived, in order to be used as mere weapons in class warfare. He was sure that if those great working-class organizations consciously

and earnestly identified their interests with the interests of the industries with which they were concerned, eschewed visionary theories of world reform, and left politics to Parliament—if they devoted themselves to the long interests of their own members—there would grow up quite speedily a spirit of co-operation to which it would be easy for public opinion and Parliament, so far as it were necessary, to induce employers to conform. He was certain that unless a realization of the grim facts about industrial Britain forced an absolutely brand-new concentrated effort on the part of all concerned and of the Government of the country to put the basic industries upon a sound economic foundation, a long period of misery was before us, in which a considerable portion of the inhabitants of this island, dwelling together in large areas, would have great difficulty in earning their daily bread, and from which no mere distribution of State charity would be able to rescue them.

He did not wish to close on a note of alarm. In England, once dangerous evils were clearly perceived, the remedies began to develop. Many correctives were perhaps already at work in public opinion. The trees did not grow up to the sky. He had great confidence that we should get through our present difficulties before the injuries inflicted on the community were so deep as to cause a permanent setback to our prosperity. It might soon be too late. It was not yet too late. Underneath the confusion and general check of the coal stoppage there were signs of a distinct, and even strong, revival in trade. The exports for June, in spite of the dislocation of the general strike, in spite of the strangling effect of the coal stoppage, in spite of an appreciably lower level of prices and a complete cessation of coal exports, amounted to £50,000,000, compared with £58,000,000 in June last year. Making allowance for the fall in prices, and for the loss of all coal exports, the export trade of June this year had been practically the same in the midst of these grave troubles as in the corresponding month last year. In the tenth week of the coal stoppage of 1926 there were nearly a million fewer persons unemployed than in the tenth week of the coal stoppage of 1921. And always the credit of Britain, unaffected in the eyes of the world by temporary disorders, remained first among the nations of the Old World; and always the pound sterling looked the dollar in the face. (Cheers.)

Let them think what might have been but for our own national strife and follies. Even now better times were at hand if the opportunity was not thrown away. He did not doubt at all that an early settlement in the coalfields upon a sound economic basis would be swiftly followed by a rapid all-round recovery in trade, with a marked diminution in unemployment, and an opportunity with goodwill and good sense, of securing within the next few years better, more secure, and more comfortable conditions of living for the great mass of the wage-earners throughout the country.

Lord Burnham proposed the toast of "The Bankers and Merchants of the City of London." He said:

He did not believe that in the methods of spoliation there was anything more unjust or devastating than depreciation of currency, which in the case of a neighbouring country was now inflicting untold misery.

The Deputy-Governor of the Bank of England, responding, said:

The gold standard was with us, and it was going to stop, although it came sooner than many people believed it to be possible. Of the countries which took part in the Great War, leaving Germany outside, they found that Hungary, Austria, and Czechoslovakia had stable currencies. Nearer home they had certain countries whose currencies he could not with honesty refer to as stable. They wished well to their allies, and a happy issue out of their troubles. Those in authority in those countries had had exceptional difficulties. Many of their people had set much store on reparations, and possibly had been slow to realize certain hard economic facts. Of late they had been living in the hope of discovering some palatable patent medicine which might enable them to enjoy the fruits of inflation without any of the discomforts of convalescence, which must follow a more recognized form of remedy. The effect of the French debt settlement would be welcomed in the City of London, and the terms of that settlement should be welcomed in France. It was a proof, if proof were needed, of our goodwill and our good wishes.

Sir Robert Horne, M.P., proposing the health of the Lord Mayor, said:

He hoped very much that the warnings Mr. Churchill had given and his appeal would be assiduously followed by all those who had the task of guiding public opinion.

Those present included:

Mrs. Winston Churchill, Lord Cullen of Ashbourne, Lord Bethell, Lord Aldenham, Lord Faringdon, Lord Riddell, Lord Waring, Lord Hunsdon, Lord Glendyne, Mr. Reginald McKenna, Captain and Mrs. Walter Samuel, Sir Robert Horne, M.P., Mr. H. A. Trotter (Deputy Governor of the Bank of England), Mr. R. L. and Mrs. Newman, Alderman Sir George Truscott, Sir Robert and Lady Kindersley, Mr. and Mrs. Evelyn Hubbard, Mr. John Nivison, Sir Kynaston Studd, Sheriff and Mrs. Batho, Alderman Sir David Burnett, Sir James and Lady Martin, Mr. F. C. Goodenough, Mr. and Mrs. J. W. Beaumont Pease, Lady Sybil Smith, Sir Stephen Killik, Sir Osborn and Lady Holmden, Alderman and Mrs. Jenks, Sir Alan and Lady Anderson, Lord Marshall, Mr. A. C. Stanley-Stone, Lady Lever, Alderman Sir Louis and Lady Newton, Sir Christopher and Lady Musgrave, Mr. E. C. Grenfell, Sir Ernest and Lady Glover, Mr. E. B. Burnard, Colonel Sir William R. and Lady Smith, Mr. C. G. Arbuthnot, Alderman Sir Vansittart and Lady Bowater, Mr. A. E. Howard, Mr. M. S. Spencer Smith, Mr. A. H. Campbell, Sir Edward Stern, Mr. and Mrs. F. C. Tiarks, Alderman and Mrs. Jacobs, Mr. R.

Hugh Tennant, Lady Cooper, Mr. John Holman, Sir Harry and Lady Goschen, Sir Adrian and Lady Pollock, Sir Horace and Lady Hamilton, Sir Ernest and Lady Wild, Sir Guy and Lady Granet, Colonel Lionel and Mrs. Hanbury, Sir Arthur Whinney, Sir Frederick and Lady Barthorpe, Mr. Dudley Pryke, Sir Banister Fletcher, Sir Stanley and Lady Machin, Mr. A. R. Phipps, Sir Gordon Nairne, Mr. H. Gordon Selfridge, Mr. A. W. Kiddy, Sir Charles and Lady Bedford, Mr. and Mrs. O. R. A. Simpkin, Sir John and Lady Ferguson, Sir George Barstow, Mr. Robert Wallace, Alderman Sir Rowland and Lady Blades, Sir E. M. and Lady Harvey, Alderman and Mrs. Neal, Alderman Sir William and Lady Waterlow, Mr. Colin and Lady Angela Campbell, Sir R. R. and Lady Scott, Sir Josiah Stamp, Lady Edward Moore, Mr. and Mrs. R. Holland Martin, Mr. W. W. Grantham, K.C., Mr. and Mrs. G. M. Booth, Lady Strong, Mr. Kenneth Goschen, Mr. W. T. Layton, Mr. Gerald T. Baker, Sir Harold and Lady Moore, Sir William Soulsby, the Mayor and Mayoress of Westminster, Mr. H. T. and Mrs. McAuliffe, Brigadier-General A. Maxwell, Mr. Edward Marsh, Sir Otto Niemeyer, Colonel Sir John Young, Miss B. H. Edwards, Sir Herbert Hambling, Sir Charles and Lady Addis, Sir George and Lady Marjoribanks, Sir William and Lady Plender, and Mr. H. Tilden.

The British Bankers' Association Dinner

THE annual dinner of the British Bankers' Association was held at the Grocers' Hall in London on July 1. Mr. Laurence Currie, the President of the Association, occupied the chair, and Sir Philip Cunliffe Lister, President of the Board of Trade, was the guest of honour. The chairman, proposing the toast of His Majesty's Government, said that the dinner having been postponed on account of the strike, the circumstances under which they met were not so favourable as they might have been at an earlier date. But for the coal strike the bank rate would probably have been down now to 4 per cent.

The President of the Board of Trade, replying, said :

They were met at a time of difficulty and discontent, but nobody who saw the way in which the country saved itself by its exertions in a recent critical issue could have any doubt that we would emerge from our present difficulties with great success, and, paradoxical as it might seem, as a more united nation, with the people more alive to realities, with a greater appreciation of the economic facts of to-day and the economic consequences of our actions, or our failure to act, and more ready to think for ourselves, not having that thinking done by the bureaux of any political party. There was no room for pessimism in regard to the future

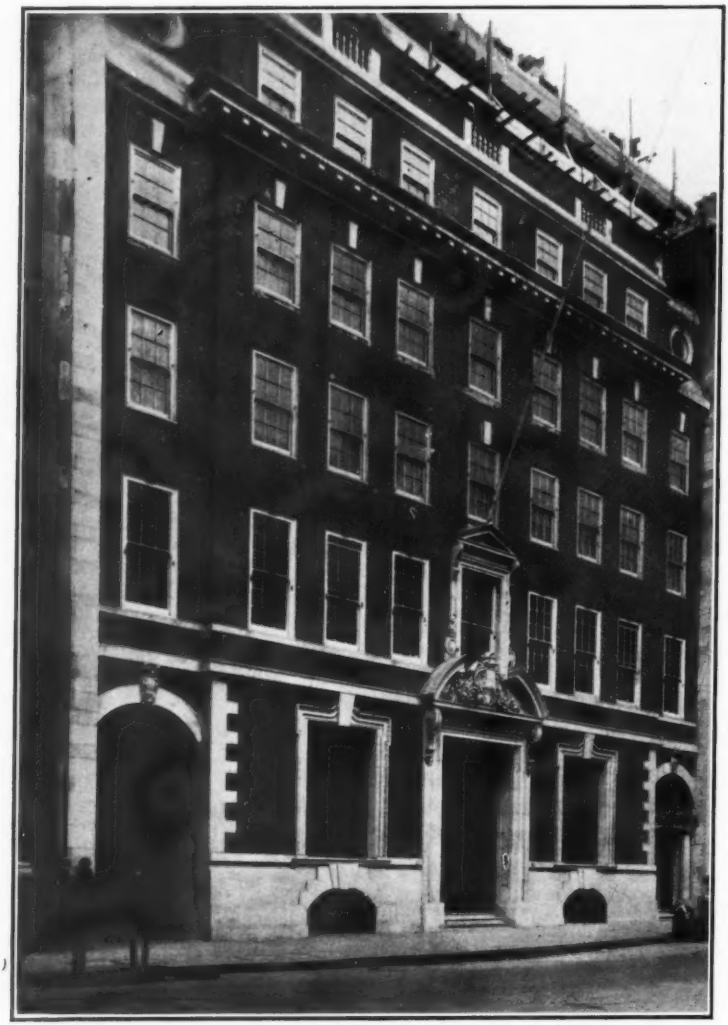
of the trade of the country. They had been through difficult times before, and they had proved the possession of powers of rapid recuperation.

This country had been built up through generations on the initiative of individual men. In recent years events had tended to damp down that initiative—there was the slump that followed the war, the load of taxation that was still far too high, and the industrial unrest from which, he made bold to say, they might now soon hope to emerge—but he was ready to assert that that initiative was beginning to revive, and without it we could not possibly go forward. This initiative meant taking risks, without which no real success could result. Whatever might be said in uninstructed circles outside, he had no doubt that the bankers of the country were ready and eager to give every possible encouragement to initiative in business and industry. It was a supreme fallacy to suggest that the interest of the bankers was divorced from the interests of industry. They had now to look forward to, and plan for, the future, and consider means of increasing the trade of the country, and, happily, the signs of revival of trade were there.

Future development could best result on the lines of the system which had put this country in the forefront. Whatever might be said for Socialism under very favourable and selected conditions, it was the least successful where the conditions were the most complex. If they were to attempt Socialism, had anybody ever envisaged the international complications with which we would be faced? Let them picture the state of affairs in which the British Government had to compete for every contract in every corner of the world, for concessions here and for concessions there, every success achieved bringing a diplomatic incident to be justified in some foreign Court, and every failure made to be explained away in the House of Commons. What foundations they would be upon which to attempt to rebuild world trade! Private enterprise must offer to the worker more than Socialism could in the industry with which he was identified.

The toast of "The Guests" was given by Sir Harry Goschen, and acknowledged by Lord Sumner, a Lord of Appeal in Ordinary.

The company present included: The Master of the Rolls, the Deputy Governor of the Bank of England, the Right Hon. Reginald McKenna, Lord Inchcape, Mr. F. C. Goodenough, Mr. J. W. Beaumont Pease, General Sir Herbert Lawrence, the Under-Secretary of State for the Board of Trade, Sir Felix Schuster, Sir Otto Niemeyer, Controller of Finance to the Treasury, Lord Bradbury, Lord Faringdon, Mr. R. M. Holland Martin, the Earl of Kenmare, Lord Ritchie of Dundee, Sir Austin Harris, Viscount Wimborne, Sir Joseph Burn, Sir W. Hicking, Sir E. Stockton, Sir E. R. Turton, Sir George Marjoribanks, Colonel R. A. Johnson, Mr. Lewis Clarke, Sir J. Fortescue Flannery, and Sir John Ferguson.



The front elevation of Lazard's New Building in Old Broad Street

Messrs. Lazard's and Messrs. Schroeder's New Banks

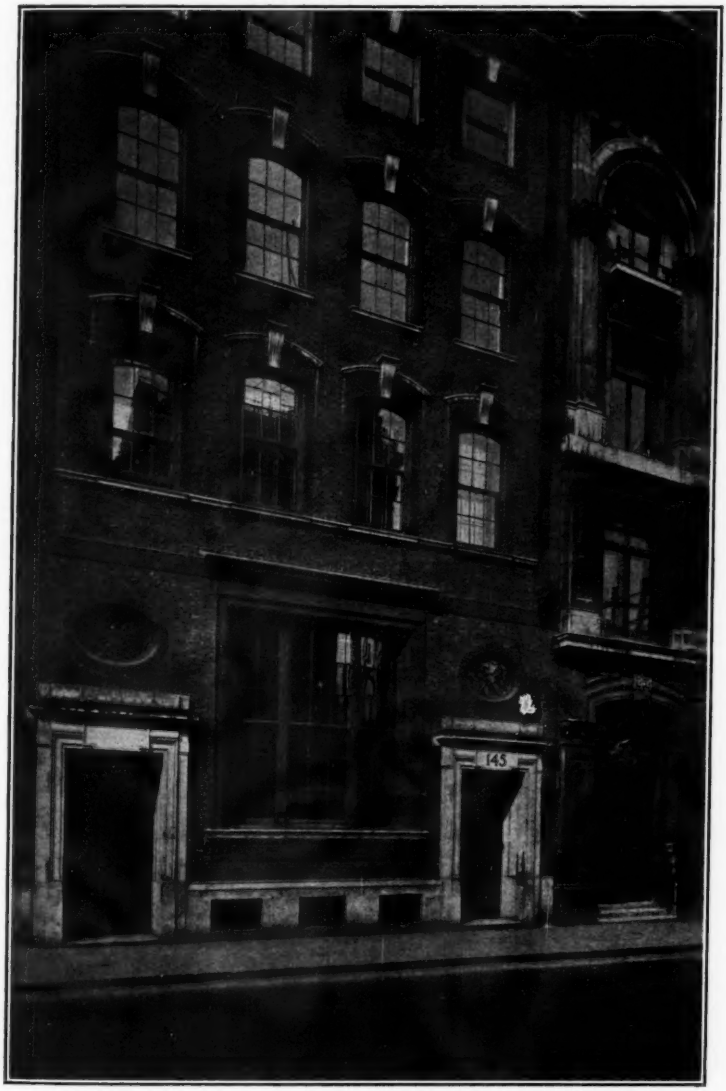
By C. H. Reilly, F.R.I.B.A.

Professor of Architecture in the University of Liverpool.

DURING the last two years several of the larger private banks in the City have been rebuilt. There is Messrs. Hambro's new premises in Bishopsgate Street in red brick with stone pilasters, slightly reminiscent of the palace at Hampton Court. There is the Morgan-Grenfell building in Great Winchester Street, where Messrs. Mewes and Davies have shaved off the Victorian whiskers of the old building, leaving a clean, new face, but following the general lines of the old. Before these, however, Messrs. Schroeder had rebuilt themselves in Leadenhall Street in fairly simple brickwork, and now, finally, there is the great block of Messrs. Lazard's modestly hiding behind a very elegant Georgian façade. The interesting thing to note is that the architects of all these buildings have quite obviously, and one imagines rightly, determined to make them look as unlike the buildings of the great joint-stock banks as possible. They have emphasized their private character by giving, at any rate to the exterior of the buildings, a distinctly domestic appearance. That Messrs. Hambro have selected motives from Wren's fine old William and Mary Palace and Messrs. Morgan-Grenfell from some Palladian ducal residence does not alter the argument. Perhaps the status of these banks appears to their owners to be best expressed in this way. If this is so Messrs. Lazard, following the same train of thought, have selected as a prototype the large, square, flat-fronted Georgian house of our English country towns. It has been suggested that the directors wanted to give the idea that their bank was a country one that had moved up to town. If this is so the idea has been charmingly carried out. The architects have even gone

farther, and by making the interior of the ground floor with the banking hall of stronger and more Roman architecture, have suggested that this is an alteration when the bank moved into the country doctor's or lawyer's house and reconstructed his dining-room and parlour for banking purposes. This would obviously have been done at a later date than that of the original structure, hence the later architecture of the inside. It sounds ingenious. Let us see how it works out.

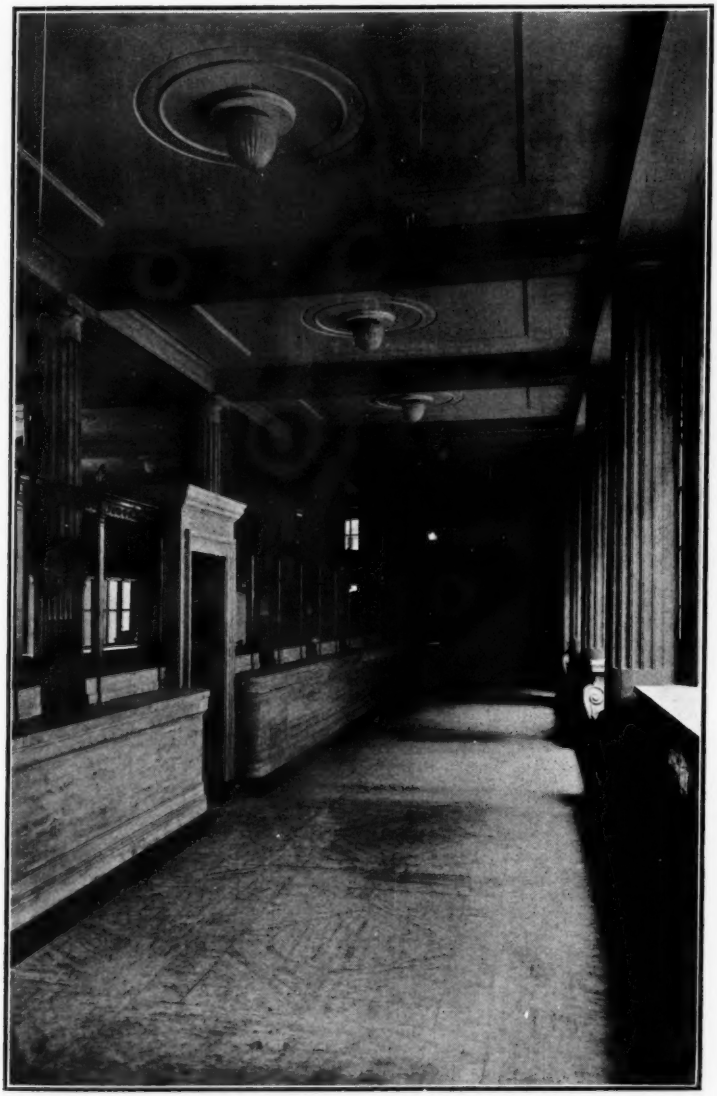
Looking at the outside first, one notices how well the flat treatment of the front suits the narrowness of Broad Street. After the Italian palazzas on every side loaded with the multiplicity of motives and detail with which English architects of the nineteenth century liked to add to their Italian originals, the breadth of this front, with its repetition of the single unit of a well-designed sash window on every floor above the ground story, is very restful and refreshing. The small bright red bricks with their well-marked joints have at present, while they retain their colour, a very cheerful effect which is enhanced by contrast with the white frames and sash-bars of the windows. It is the effect one sees in any clean Dutch town, but does not expect in London. At present it is so sudden and strange that one can imagine the older stone buildings in the neighbourhood rather resenting the intrusion of this buxom country wench with her glowing red cheeks. On closer inspection, however, one sees that if she is from the country her clothes are not without refinement. The well-known composition of centre pedimented window over the broken pediment of the door below with all its carved enrichment is well done. The country lady has decorated her silk gown with excellent lace. The large window, however, on either side of the door in place of the three above does not seem quite so happy with its architrave bent up to grip the key-blocks. However, the single window in place of the three gives a good spread of brickwork on either side with the effect of a solid base to the projecting centre mass of the building. This mass is properly made self-contained with its enriched cornice returned and finishing against a plain band. Indeed, the architects have been very careful with their country



The Entrance of Schroeder's New Building in Leadenhall Street

lady, having once brought her to town. She is not only refined and reticent in her manners, as a lady should be, but she is for safety cut off from her neighbours by two projecting walls of plain stone on either side, which make an excellent frame and setting to her. There is only one small fault in scale in the whole front, and that is in the treatment of the tenants' entrance under the far arch. Here the columns, lintel, and the fanlight over it seem a little small for the rest of the work. It would probably have been better to have left this subsidiary entrance plainer so that it would not only balance better the plain arch on the opposite side, but not appear in itself to be trying to compete with the main entrance.

Walking through the main door one finds that the architects have had a long, difficult, narrow-necked, and irregular site to deal with. They have wisely placed the partners' private rooms on the ground and first floors of the Broad Street front, thereby justifying the domestic character of that elevation. After passing between and under them one comes to the banking-hall lined with Roman Travertine. This hall is a Roman interior surrounded by Roman Doric columns. A Travertine counter with a bronze grille on it projects down one side. With so narrow a site it was probably impossible to arrange that the public space should be in the centre, but it seems a pity that it should not. In our banks we seem always to be approaching the stately American banking-hall, but never quite getting there. One could not imagine an American banking-hall with a great range of columns down either side where all the arrangements were not symmetrical. Apart, however, from this rather fundamental matter, the hall is solid and stately. If one can imagine the counter with its superstructure removed or pushed back between the columns, one sees that here we should at last have a hall or atrium to a definite architectural scheme instead of the usual shapeless space stretching out between stanchions in all directions like some immense drapery store, which goes by the name of a banking-hall in England. All the minor apartments in this building, however, are very well done—probably better done than the corresponding rooms in an American bank, if such exist. They have the



View of the Main Banking Hall at Lazard's

recognized Georgian finish for fine domestic interiors, particularly the managing directors' room and the board-room. Any gentleman could live in them, which has not always been the case with English office accommodation. Indeed, in the nineteenth century City men generally, and even bankers, were willing to spend their working days in shapeless, ill-finished and furnished rooms to which in their own houses they would not condemn their servants. The rest of the interior is more monumentally conceived, in keeping with the banking-hall. The staircase, for instance, although it only leads to the private rooms and is of no great width, is strong and dignified with its Travertine walls and its niche in the same material. In the foreign exchange department below the main banking-hall there is again a strong and simple treatment of walls lined with large blocks of Travertine, and a great raised recess in the same material. The one general criticism one might make of the interior is that the monumental parts and the domestic parts

View of the Partners' Room at Schroeder's

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Schroeder's, a view of the Banking Hall.

are not sufficiently fused together. One passes a little circuitously and irregularly from one to the other. Now one is in a Georgian part of the building with its small detail, its open fireplaces and panelled walls, and now in a modern with its bare stone and general air of power and efficiency. One gathers the owners asked for this, so the architects, if it is a fault, are not to blame. In any case, too, they are to be congratulated. The building is better both inside and out than any similar building, except, perhaps, one by Sir Edwin Lutyens himself. Indeed, if his hand cannot be traced here his spirit has been at work. The building has a great deal of the intimacy and charm which characterize all he does. One would not be surprised to hear that one of the architects (Messrs. Gunton, Gunton and Heal) had been trained by him.

Messrs. Schroeder's Bank in Leadenhall Street was the first to invade the area of monumental stonework in the City with a domestic brick front. It was built in 1924,

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which, in these days when architecture is once again being taken seriously (or moderately so), is a long time ago. The front is a quiet one, but is not so pure an example of eighteenth-century good manners as Lazard's. Indeed, the moulded stone drip moulds over the gauged brick arches to the windows, and stone key-blocks also crowned with a similar moulding are very much in the Late Victorian manner. However, the front, as far as it can be seen from the street, has unity and a certain restraint. The two doors with the oval windows over them make a pleasant composition with the big ground-floor window in between them, though this latter is completely out of scale with the windows above. One says the front has unity as far as can be seen from the street. From higher up one would see that it has another front set back from the main one which entirely fails to compose with it. However, I suppose one need not worry about this till the time comes for arriving by aeroplane. Certainly the architects did not. For the rest of their building they have had an even more difficult site to plan than at Messrs. Lazard's. It is even longer and narrower and more irregular. It is hardly to be expected, therefore, that there will be any very noble interiors within. To make up, one supposes, for its irregular straggling shape the architects have lined the banking-hall with marble and planted pilasters in another marble wherever a space could be found for them. The beams, which cross the ceiling in various directions owing to the shape of the site, are all fully enriched. Everything has been done that could be done to distract the eye from the fundamental shapes. It was a brave attempt, but bound to fail. The less one decorates awkward shapes the better; the more one does the more one calls attention to their awkwardness. It is no happiness to live in marble halls if the halls are lop-sided. The fine partners' room on the first floor where the walls are straight and the beams at right angles is proof of this. This room is simple and good, though even it would probably be better without the drawing-room bay window. It is quietly panelled and furnished, and with large and restful floor spaces. It should be possible to do good work in it.